

# NEW APPLICATION



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**ORIGINAL**

**RECEIVED**

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AZ CORP COMMISSION  
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Arizona Corporation Commission

**DOCKETED**

AUG 29 2011

Attorneys for Pima Utility Company

DOCKETED BY

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## BEFORE THE ARIZONA CORPORATION COMMISSION

SW-02199A-11-0330

IN THE MATTER OF THE APPLICATION  
OF PIMA UTILITY COMPANY, AN  
ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
CHARGES FOR UTILITY SERVICE  
BASED THEREON.

DOCKET NO: SW-02199A-11-\_\_\_\_\_

**APPLICATION**

Pima Utility Company, an Arizona public service corporation ("Pima" or the "Company"), hereby applies for an order establishing the fair value of its plant and property used for the provision of public wastewater utility service and, based on such finding, approving permanent rates and charges for utility service designed to produce a fair return thereon. In support thereof, Pima states as follows:

1. Pima is a public service corporation engaged in providing water and wastewater utility services in portions of Maricopa County, Arizona, pursuant to certificates of convenience and necessity granted by the Arizona Corporation Commission. During the Test Year, Pima served approximately 10,050 wastewater service connections.

2. Pima's business office is located at 9532 E. Riggs Road, Sun Lakes, Arizona 85248 and its telephone number is (480) 895-4200. The Company's primary

1 management contact is Steven Soriano. Mr. Soriano is employed by Pima as its Vice  
2 President and General Manager.

3 3. The persons responsible for overseeing and directing the conduct of this rate  
4 application are Steven Soriano, Mr. Thomas Bourassa (the Company's rate case  
5 consultant), and Mr. Ray Jones (the Company's engineering consultant). Mr. Soriano's  
6 mailing address is 9532 E. Riggs Road, Sun Lakes, Arizona 85248, his telephone number  
7 is (480) 895-4200, his telecopier number is (480) 895-5455, and his email address is  
8 steve.soriano@robson.com. Mr. Bourassa's mailing address is 139 W. Wood Drive,  
9 Phoenix, Arizona 85029, his telephone number is (602) 246-7150, his telecopier number  
10 is (602) 246-1040, and his email address is tjb114@cox.net. Mr. Jones' mailing address  
11 is 25213 N. 49th Drive, Phoenix, Arizona 85083, his telephone number is (623) 341-  
12 4771, his telecopier number is (623) 582-5160, and his email address is  
13 ray.jones@aricor.com. **All discovery, data requests and other requests for**  
14 **information concerning this Application should be directed by email to Mr. Soriano,**  
15 **Mr. Bourassa, and Mr. Jones, with a copy to undersigned counsel for the Company,**  
16 **including by email to jshapiro@fclaw.com and wbirk@fclaw.com.**

17 4. The Company's present rates and charges for wastewater utility service  
18 were approved by the Commission in Decision No. 62184 (January 5, 2000) using a test  
19 year ending December 31, 1997. There have been no other changes to the Company's  
20 rates since the current rates went into effect on or after January 1, 2000.

21 5. The wastewater division's rate base has decreased by approximately  
22 \$2.6 million since the last rate case. Still, Pima maintains that revenues from its utility  
23 operations are presently inadequate to provide the Company a fair rate of return on the fair  
24 value of its utility plant and property devoted to public service. Moreover, annual  
25 operating expenses have increased by almost \$1 million since the last test year. This  
26 increase since the test year in the prior rate proceeding has caused the revenues produced

1 by the current rates and charges for service to become inadequate to meet operating  
2 expenses and provide a reasonable rate of return. Therefore, the Company requests that  
3 certain adjustments to its rates and charges for utility service be approved by the  
4 Commission so that the Company may recover its operating expenses and be given an  
5 opportunity to earn a just and reasonable rate of return on the fair value of its property.  
6 The Company agrees to use its original cost rate base as its fair value rate base in this  
7 proceeding to minimize disputes and reduce rate case expense.

8 6. Filed concurrently herewith are the schedules required pursuant to A.A.C.  
9 R14-2-103 for rate applications by Class "B" utilities. The test year utilized by the  
10 Company in connection with the preparation of such schedules is the 12-month period that  
11 ended December 31, 2010. The Company requests that the Commission utilize such test  
12 year in connection with this Application, with appropriate adjustments to obtain a normal  
13 or more realistic relationship between revenues, expenses and rate base during the period  
14 in which the rates established in this proceeding are in effect.

15 7. During the test year, the Company's adjusted gross revenues were  
16 \$3,096,775 from wastewater utility service. The adjusted operating income from the  
17 wastewater division was \$441,784, leading to an operating income deficiency of  
18 \$492,268. The adjusted fair value rate base was \$9,863,271. Thus, the rate of return on  
19 the Company's wastewater operations during the test year was 4.48 percent.

20 8. The Company submits that this rate of return is inadequate to allow it to  
21 obtain debt, pay a reasonable dividend to its stockholder, maintain a sound credit rating,  
22 and/or enable Pima to attract additional capital on reasonable and acceptable terms in  
23 order to continue the investment in utility plant necessary to adequately serve customers.

24 9. The Company is requesting an increase in wastewater utility revenues equal  
25 to \$691,210, an increase in revenues of 22.32 percent. The adjustments to the Company's  
26

1 rates and charges that are proposed herein, when fully implemented, will produce a rate of  
2 return on the fair value rate base equal to 9.47 percent from wastewater operations.

3 10. Attached hereto as **Attachment 1** are wastewater plant descriptions and  
4 wastewater flows for the 2010 calendar year.

5 11. Filed concurrently in support of this Application is the Direct Testimony of  
6 Steve Soriano, providing an overview of Pima and discussing the Company's  
7 improvements since the last rate decision; the Direct Testimony of Ray L. Jones,  
8 providing an overview of Pima's wastewater system and operations and support for plant  
9 additions, and discussing the B-2 Schedules, and deferred operating costs and income tax;  
10 and the Direct Testimony of Thomas Bourassa, in two separate volumes that collectively  
11 provide an overview of the Company's rate filing, discussion of the revenue requirement,  
12 including the "A" through "F" schedules, development of the rate base and income  
13 statement adjustments, cost of equity capital and related issues, proposed rates, including  
14 the "H" schedules, and discussion of the effects of the proposed rates on customers' bills.  
15 The Company's "D" schedules, which concern the cost of capital, are attached to the  
16 volume of Mr. Bourassa's testimony addressing cost of capital.

17 WHEREFORE, Pima requests the following relief:

18 A. That the Commission, upon proper notice and at the earliest possible time,  
19 conduct a hearing in accordance with A.R.S. § 40-251 and determine the fair value of  
20 Pima's wastewater plant and property devoted to providing wastewater utility service;

21 B. Based upon such determination, that the Commission approve permanent  
22 adjustments to the rates and charges for wastewater utility service provided by Pima, as  
23 proposed by the Company herein, or approve such other rates and charges as will produce  
24 a just and reasonable rate of return on the fair value of the Company's utility plant and  
25 property; and  
26



1 C. That the Commission authorize such other and further relief as may be  
2 appropriate to ensure that Pima has an opportunity to earn a just and reasonable return on  
3 the fair value of its wastewater utility plant and property and as may otherwise be required  
4 under Arizona law.

5 RESPECTFULLY SUBMITTED this 29<sup>th</sup> day of August, 2011.

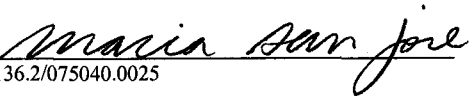
6 FENNEMORE CRAIG, P.C.

7  
8 By 

Jay L. Shapiro  
3005 North Central Avenue  
Suite 2600  
Phoenix, Arizona 85012  
Attorneys for Pima Utility Company

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10  
11  
12 ORIGINAL and ~~thirteen~~ <sup>fifteen</sup> (15) copies of the  
13 foregoing, together with the direct testimonies  
14 and schedules supporting  
this application, were delivered  
this 29<sup>th</sup> day of August, 2011, to:

15 Docket Control  
16 Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

17  
18 By:   
19 244T136.2/075040.0025

# Pima Utility Company

Application For A Determination Of The Fair Value Of Its  
Utility Plants And Property And For Increases In Its  
Wastewater Rates And Charges For Utility Service Based  
Thereon.

## **Attachment 1**

<b>COMPANY NAME</b> Pima Utility Company	
<b>Name of System:</b>	<b>Wastewater Inventory Number (if applicable):</b>

**WASTEWATER COMPANY PLANT DESCRIPTION**  
**TREATMENT FACILITY**

<b>TYPE OF TREATMENT</b> (Extended Aeration, Step Aeration, Oxidation Ditch, Aerobic Lagoon, Anaerobic Lagoon, Trickling Filter, Septic Tank, Wetland, Etc.)	Sequential batch reactors with aerobic digesters, sand filtration, ultra-violet disinfection
<b>DESIGN CAPACITY OF PLANT</b> (Gallons Per Day)	2,400,000 GPD

**LIFT STATION FACILITIES**

Location	Quantity of Pumps	Horsepower Per Pump	Capacity Per Pump (GPM)	Wet Well Capacity (gals)
See Attached				

**FORCE MAINS**

Size	Material	Length (Feet)
4-inch		
6-inch	Included in collection system	

**MANHOLES**

Type	Quantity
Standard	1,396
Drop	

**CLEANOUTS**

Quantity
220

***Note: If you are filing for more than one system, please provide separate sheets for each system.***

PIMA UTILITY COMPANY

A STATEMENT ATTACHED TO AND MADE PART OF THE ANNUAL SEWER REPORT  
TO THE ARIZONA CORPORATION COMMISSION  
FOR THE YEAR ENDED DECEMBER 31, 2010

Location		Quantity of Pumps	Horsepower Per Pump	Capacity Per Pump	Wet Well Capacity
Maryland	Lift Station #1	2	20	650	14,960 Gallons
Dobson	Lift Station #2	2	15	500	1,878 Gallons
Cochise	Lift Station #3	2	5	375	2,900 Gallons
S. Brentwood	Lift Station #4	2	3.5	250	2,900 Gallons
N. Brentwood	Lift Station #5	2	3.5	250	2,900 Gallons
N. Alma School	Lift Station #6	2	2.5	250	3,229 Gallons
S. Alma School	Lift Station #7	2	3.5	250	3,229 Gallons
Santan	Lift Station #8	2	3.5	250	3,229 Gallons
Sunnydale	Lift Station #9	2	3.5	250	3,229 Gallons
Unit 27	Lift Station #10	2	7.5	500	18,700 Gallons
Unit 31	Lift Station #11	2	10	500	18,700 Gallons
Unit 32	Lift Station #12	2	15	750	134,640 Gallons
Yard	Lift Station #13	2	10	500	2,000 Gallons
McDonalds	Lift Station #14	2	2	200	2,000 Gallons
SanTan Vista	Lift Station #15	2	2	250	2,000 Gallons

<b>COMPANY NAME</b> Pima Utility Company	
<b>Name of System:</b>	<b>Wastewater Inventory Number (if applicable):</b>

**WASTEWATER COMPANY PLANT DESCRIPTION (CONTINUED)**

**COLLECTION MAINS**

**SERVICES**

Size (in inches)	Material	Length (in feet)
2	PVC	200
4	PVC	18,401
6	PVC	19,102
8	PVC	392,322
10	PVC	62,042
12	PVC	31,076
15	PVC	2,541
18		
21		
24		
30		

Size (in inches)	Material	Quantity
4	PVC	
6	PVC	9,958
8		93
12		
15		

**FOR THE FOLLOWING FIVE ITEMS, LIST THE UTILITY OWNED ASSETS IN EACH CATEGORY  
PER WASTEWATER SYSTEM**

<b>SOLIDS PROCESSING AND HANDLING FACILITIES</b>	Centrifuge
<b>DISINFECTION EQUIPMENT</b> (Chlorinator, Ultra-Violet, Etc.)	Ultra-Violet
<b>FILTRATION EQUIPMENT</b> (Rapid Sand, Slow Sand, Activated Carbon, Etc.)	Sand & Anthracite
<b>STRUCTURES</b> (Buildings, Fences, Etc.)	Lift Stations, Operations Building, Solids Building,
<b>OTHER</b> (Laboratory Equipment, Tools, Vehicles, Standby Power Generators, Etc.)	Laboratory Supplies

***Note: If you are filing for more than one system, please provide separate sheets for each system.***

<b>COMPANY NAME</b> Pima Utility Company	
<b>Name of System:</b>	<b>Wastewater Inventory Number (if applicable):</b>

### WASTEWATER FLOWS

<b>MONTH/YEAR</b> <b>(Most Recent 12 Months)</b>	<b>NUMBER OF</b> <b>SERVICES</b>	<b>TOTAL MONTHLY</b> <b>SEWAGE FLOW</b>	<b>SEWAGE FLOW ON</b> <b>PEAK DAY</b>
January	10,050	37,211,000	1,438,000
February	10,050	33,456,000	1,349,000
March	10,050	38,058,000	1,371,000
April	10,050	33,843,000	1,380,000
May	10,050	30,246,000	1,235,000
June	10,050	27,451,000	1,380,000
July	10,050	27,036,000	1,181,000
August	10,050	26,692,000	1,008,000
September	10,050	26,803,000	979,000
October	10,051	30,187,000	1,189,000
November	10,051	32,881,000	1,262,000
December	10,051	36,244,000	1,418,000

### PROVIDE THE FOLLOWING INFORMATION AS APPLICABLE PER WASTEWATER SYSTEM

<b>Method of Effluent Disposal</b> (leach field, surface water discharge, reuse, injection wells, groundwater recharge, evaporation ponds, etc.)	Reuse & Recharge
<b>Groundwater Permit Number</b>	N/A
<b>ADEQ Aquifer Protection Permit Number</b>	P100557
<b>ADEQ Reuse Permit Number</b>	R100557
<b>EPA NPDES Permit Number</b>	N/A

***Note: If you are filing for more than one system, please provide separate sheets for each system.***



1 FENNEMORE CRAIG  
A Professional Corporation  
2 Jay L. Shapiro (No. 014650)  
3003 North Central Avenue, Suite 2600  
3 Phoenix, Arizona 85012  
Telephone (602) 916-5000

4 Attorneys for Pima Utility Company  
5  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8  
9 IN THE MATTER OF THE APPLICATION  
OF PIMA UTILITY COMPANY, AN  
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16 PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
17 CHARGES FOR UTILITY SERVICE  
BASED THEREON.

DOCKET NO: SW-02199A-11-\_\_\_\_\_

18  
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21 **DIRECT TESTIMONY OF**  
22 **STEVEN SORIANO**

23 **August 29, 2011**  
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2447714.2/075040.0025

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Steven Soriano. My business address is 9532 E. Riggs Road, Sun  
4 Lakes, Arizona 85248.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of the Applicant Pima Utility Company ("Pima" or the "Company").

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed as a Vice-President for Robson Communities, Inc. I also hold the  
9 titles of Vice-President and Assistant Secretary for Pima, and function as Pima's  
10 General Manager.

11 **Q. WHAT IS THE RELATIONSHIP BETWEEN ROBSON COMMUNITIES,**  
12 **INC. AND PIMA?**

13 A. Robson Communities, Inc. provides accounting and administrative services to a  
14 group of affiliated companies collectively referred to as "Robson." Pima provides  
15 water and wastewater utility services to the Sun Lakes community (developed by  
16 Robson) and two additional small adjacent subdivisions to Sun Lakes.

17 **Q. IS ROBSON THE PARENT OF PIMA?**

18 A. No. Pima is owned by the shareholders listed on **Exhibit SS-DT1**. Robson and  
19 Pima would be better described as affiliated companies.

20 **Q. DOES THE ROBSON FAMILY OF COMPANIES INCLUDE OTHER**  
21 **WATER AND WASTEWATER UTILITIES REGULATED BY THE**  
22 **ARIZONA CORPORATION COMMISSION?**

23 A. Yes, in addition to Pima, the Robson family includes the following water and  
24 wastewater utilities:

25 Lago Del Oro Water Company  
26 Ridgeview Utility Company

1 Saddlebrooke Utility Company  
2 Quail Creek Water Company, Inc.  
3 Picacho Water Company  
4 Picacho Sewer Company  
5 Mountain Pass Utility Company  
6 Santa Rosa Water Company  
7 Santa Rosa Utility Company

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10  
11 **Q. WHAT ARE YOUR RESPONSIBILITIES FOR PIMA?**

12 A. I oversee the operations and business management functions for Pima. I am  
13 responsible for the daily operations and administration of the utility, for the  
14 financial and operating results, for capital and operating cost budgeting, for rate  
15 case planning and oversight, and rate setting policies and procedures.

16  
17 **Q. WHAT WAS YOUR EDUCATIONAL AND EMPLOYMENT  
18 BACKGROUND BEFORE GOING TO WORK WITH ROBSON?**

19 A. Before joining Robson in 1995, I was employed as an auditor and a CPA with  
20 Kenneth Leventhal/Ernst and Young in Phoenix. In 1991, I received my degree in  
21 business administration and accounting from State University of New York at  
22 Buffalo.

23 **Q. WHAT OTHER POSITIONS HAVE YOU HELD WITH ROBSON?**

24 A. During my employment with Robson I have, at times, served as an accountant.

25 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

26 A. Yes, my direct testimony was recently filed and admitted into evidence in Phase 2  
of Litchfield Park Service Company's pending rate case, Docket Nos. W-01427A-  
09-0104 and SW-01428A-09-0103.

**Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS  
DOCKET?**

A. To support Pima's application for a determination of fair value and the setting of  
new rates. Specifically, I will provide background on the Company and describe

1 the integrated nature of our operations. I will also summarize significant capital  
2 improvements completed by the Company and other factors that are contributing to  
3 the need for a rate increase.

4 **II. OVERVIEW OF PIMA UTILITY COMPANY**

5 **Q. PLEASE PROVIDE AN OVERVIEW OF PIMA.**

6 A. The Company is an integrated water and wastewater provider located in  
7 southeastern Maricopa County. Pima was formed in 1972 to provide water and  
8 wastewater services to the unincorporated master planned community of Sun  
9 Lakes. Sun Lakes was built in three phases between 1973 and 2008, and currently  
10 consists of approximately 10,000 homes with supporting neighborhood commercial  
11 development.

12 In addition to Sun Lakes, Pima serves two subdivisions immediately  
13 adjacent to Sun Lakes—Oakwood Hills Subdivision and San Tan Vista  
14 Subdivision. Oakwood Hills was developed in 1991 and consists of 32 custom  
15 home lots. San Tan Vista began development in 2004 and consists of  
16 approximately 200 custom home lots.

17 As of year-end 2010, Pima served approximately 10,175 water connections  
18 and 10,051 wastewater connections. Pima's customer base is approximately 96%  
19 residential customers, with only 196 commercial customers and 4 irrigation  
20 customers. Nearly all of the residential customers are served by 5/8"x3/4" meters.  
21 Commercial customers are served by meters ranging from 5/8"x3/4" to 2" in size.

22 **Q. WHAT DOES IT MEAN TO BE AN INTEGRATED WATER AND**  
23 **WASTEWATER PROVIDER?**

24 A. Simply put, an integrated water and wastewater provider does not treat the delivery  
25 of water and the treatment of wastewater as separate unrelated activities. Rather,  
26 an integrated water and wastewater provider recognizes that the delivery of water

1 services is substantially interrelated with the provision of wastewater services. An  
2 integrated provider recognizes that groundwater is a scarce resource and that the  
3 use of reclaimed (recycled) water for turf facilities and recharge of the aquifer are  
4 critical to the long-term sustainable provision of water and wastewater services to  
5 its customers.

6 **Q. PLEASE DESCRIBE PIMA'S INTEGRATED WATER AND**  
7 **WASTEWATER SYSTEM.**

8 A. Pima uses groundwater as its initial source of water supply. Using a system of  
9 wells, storage facilities and booster stations, groundwater is distributed to  
10 residential and commercial customers throughout Pima's service area. Pima then  
11 collects sewage generated by its customers and treats the wastewater to B+ quality  
12 at Pima's wastewater reclamation facility. The reclaimed effluent is recycled into  
13 the Sun Lakes community through the use of Pima's reclaimed water distribution  
14 system installed in the community. Pima delivers reclaimed (recycled) water to the  
15 Oakwood Golf Course for direct use, and to five dual use recharge and recovery  
16 wells for recharge into the local aquifer. Reclaimed effluent is recovered from the  
17 recharge and recovery wells for delivery to landscaping and golf course uses in the  
18 Sun Lakes community. Pima's fully integrated system directly reduces  
19 groundwater pumping by meeting turf and landscaping demands with reclaimed  
20 water, and replenishes the aquifer by returning remaining unused effluent to the  
21 aquifer.

22 **Q. THANK YOU. PLEASE DESCRIBE PIMA'S MOST RECENT RATE**  
23 **CASES.**

24 A. The Company's last water rate case was filed based on a 1992 test year with  
25 current rates being approved in Decision No. 58743 (August 11, 1994) and  
26 becoming effective September 1, 1994. The Company's last wastewater rate case

1 was filed based on a 1997 test year with current rates being approved in Decision  
2 No. 62184 (January 5, 2000) and becoming effective January 1, 2000.

3 **Q. HOW HAS PIMA BEEN ABLE TO HOLD ITS RATES STEADY FOR THIS**  
4 **EXTENDED PERIOD OF TIME?**

5 A. There are several factors that have enabled Pima to avoid rate increases over the  
6 past several years. From the time of the last rate increases through build out of Sun  
7 Lakes in 2008, Pima experienced steady growth, which helped Pima to pay  
8 increasing expenses and support additional rate base without the need for an  
9 increase in rates. This factor affects both water and wastewater, and has been  
10 particularly important in holding the line on water rates. Another favorable factor  
11 for the water division is the low arsenic level present in our groundwater supply.  
12 Unlike many water utilities, Pima has not had to construct any arsenic treatment  
13 facilities, which have driven rate increases for many water providers.

14 On the wastewater side, just prior to the last rate increase, Pima constructed  
15 a new wastewater treatment plant. The treatment plant cost approximately  
16 \$8.2 million and represented about two-thirds of the rate base approved in Decision  
17 No. 62184. As is typical with any utility after placing a major facility into service,  
18 the resulting significant rate increase provided a base from which significant  
19 additional capital expenditures could be made for wastewater facilities without  
20 driving immediate rate increases.

21 Pima is also managed and staffed by a combined water and wastewater  
22 workforce that operates in an efficient manner. As a Robson affiliated utility, Pima  
23 enjoys economies of scale that a stand-alone utility would not have.

24 **Q. WHY IS PIMA FILING FOR NEW RATES AT THIS TIME?**

25 A. The Pima water and wastewater systems have aged and some facilities have  
26 reached the end of their useful lives. Pima has been prudently investing in the

1 ongoing replacement and rehabilitation of these facilities. The impact of these and  
2 other capital expenditures on rate base together with the impact of steadily  
3 increasing expenses and regulatory requirements have forced Pima to seek a rate  
4 increase at this time in order to earn a fair return on our investment.

5 **III. SUMMARY OF CHANGED CIRCUMSTANCES SINCE THE LAST TEST**  
6 **YEARS**

7 **Q. PLEASE SUMMARIZE SIGNIFICANT IMPROVEMENTS THAT PIMA**  
8 **HAS MADE SINCE THE LAST RATE CASES.**

9 A. Pima completed the final phase of fully integrating its water and wastewater  
10 system, including construction of Phase two, the water reclamation facility, five  
11 recharge/recovery wells, and some components of the reclaimed water distribution  
12 system. Pima has also made several significant enhancements to the wastewater  
13 reclamation facility.

14 The aging water distribution system and wastewater collection system were  
15 also addressed. Nine lift stations received major improvements or rehabilitation  
16 since the last wastewater rate case, and Well 27, Water Plant #1, and Water Plant  
17 #2 were rehabilitated and rebuilt since the last water rate case. Mr. Jones provides  
18 additional details of these and other system improvements in his testimony.<sup>1</sup>

19 **Q. ARE THERE ANY CHANGES TO OPERATING REVENUES OR PIMA'S**  
20 **OPERATIONS IN GENERAL THAT YOU WOULD LIKE TO ADDRESS?**

21 A. Yes. Since the last wastewater rate case, Sun Lakes has essentially been built out.  
22 This has affected our wastewater revenues in two ways. First, Sun Lakes  
23 Marketing Limited Partnership ("SLLP") pays Excess Capacity Charges in  
24 accordance with the Excess Capacity Agreement (dated March 31, 1995) between  
25 SLLP and Pima. SLLP's current capacity reservation is 10 lots, resulting in an

26 <sup>1</sup> See the Direct Testimony of Ray Jones at 7 – 8.

1 annual Excess Capacity Charge of \$1,200.00. In comparison, the annual Excess  
2 Capacity Charge used on the last rate case was \$483,840.00.

3 Second, in the last rate case Pima was authorized to collect an Establishment  
4 Charge of \$260.00. The charge is an impact fee assessed only to new (first time)  
5 connections. In 2010, Pima collected three Establishment Charges for total  
6 revenue of \$780.00. In comparison, impact fee revenue was assumed to be  
7 \$89,000.00 in the last rate case.

8 **IV. MISCELLANEOUS ISSUES.**

9 **Q. WHAT IS THE COMPANY'S COMPLIANCE STATUS?**

10 A. To the best of my knowledge, Pima is currently in compliance with the rules and  
11 regulations of MCESD, ADEQ, ADWR, and the Commission. We have submitted  
12 requests for evidence of current compliance to MCESD. We will provide such  
13 evidence to Staff upon receipt.

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A. Yes.  
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Pima Utility Company

Steven Soriano Direct Testimony

**Exhibit SS-DT1**

**Pima Utility Company  
List of Shareholders  
As of September 25, 2011**

<u>SHAREHOLDER</u>	<u>OWNERSHIP %</u>
JR Norton III	10.2350%
EJR Rev Trust	41.4090%
KAR Sub S Trust	4.0434%
LRR Sub S Trust	4.0434%
MER Sub S Trust	4.0434%
RDR Sub S Trust	2.9627%
SSR Sub S Trust	4.0434%
KAR	4.2367%
LRR	4.2367%
MER	4.2367%
RDR	1.8377%
SSR	4.2367%
Arthur A Carrol Irr Trust	0.9236%
Roger Stevenson Irr Trust	0.9708%
Robert A Micalizio Irr Trust	2.7455%
MDR 1997 Irr S Trust	1.0287%
RDR 1997 Irr S Trust	1.0287%
Michael Norton Trust	1.2460%
Melanie Norton Trust	1.2460%
Norton Family Trust	1.2460%
	<u>100.0001%</u>



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Telephone (602) 916-5000

4 Attorneys for Pima Utility Company  
5  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8  
9 IN THE MATTER OF THE APPLICATION  
OF PIMA UTILITY COMPANY, AN  
10 ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE  
11 OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
12 ITS WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02199A-11-\_\_\_\_\_

13 IN THE MATTER OF THE APPLICATION  
14 OF PIMA UTILITY COMPANY, AN  
ARIZONA CORPORATION, FOR A  
15 DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANTS AND  
16 PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
17 CHARGES FOR UTILITY SERVICE  
BASED THEREON.

DOCKET NO: SW-02199A-11-\_\_\_\_\_

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21 **DIRECT TESTIMONY OF**

22 **RAY L. JONES, P.E.**

23 **August 29, 2011**  
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1     **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2     **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3     A. My name is Ray L. Jones, P.E. My business address is 25213 N. 49th Drive,  
4     Phoenix, Arizona 85083.

5     **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6     A. On behalf of the Applicant Pima Utility Company ("Pima" or the "Company").

7     **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8     A. I am the owner and principal of ARICOR Water Solutions LC.

9     **Q. WHAT WAS YOUR EDUCATIONAL AND EMPLOYMENT**  
10    **BACKGROUND BEFORE GOING TO WORK FOR ARICOR?**

11    A. I began my working career with Citizens Utilities Company ("Citizens") in 1985 as  
12    a Staff Engineer for the Maricopa County water and wastewater division. I was  
13    employed at Citizens for 17 years, ending my career there as Vice President and  
14    General Manager for the Arizona water and wastewater operations. In 2002,  
15    American Water ("American") purchased the water and wastewater assets of  
16    Citizens and I joined American as the President of Arizona-American Company.  
17    I left American in 2004 to start up ARICOR Water Solutions.

18           I received a Bachelor of Science in Civil Engineering in 1985 from the  
19    University of Kansas, and a Master of Business Administration in 1991 from  
20    Arizona State University. I am a Registered Professional Engineer in Arizona and  
21    California and a Grade 3 Certified Operator in Arizona for all four water and  
22    wastewater classifications. I specialize in water resource issues, regulatory  
23    strategies, rate case filings, and water and wastewater utility management and  
24    operations. My resume is attached as **Exhibit RLJ-DT1**.

1     **Q.     HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

2     A.     In my time with Citizens and American, I prepared or assisted in the preparation of  
3           multiple filings before the Arizona Corporation Commission ("Commission"),  
4           including rate applications and CC&N filings. Since starting ARICOR, I have  
5           prepared several filings and assisted in the preparation of several more filings  
6           before the Commission, including rate applications and CC&N filings. I have also  
7           provided testimony in all of these cases before the Commission. A summary of my  
8           regulatory work experience is included in my resume attached as **Exhibit RLJ-**  
9           **DT1.**

10    **Q.     WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

11    A.     To support Pima's application for rate relief. Specifically, I will provide an  
12           overview of Pima's water and wastewater system and operations, provide support  
13           for plant additions and discuss the B-2 Schedules. Lastly, I will address policy  
14           issues related to Pima's request to recover income tax expense.

15    **II.    PIMA'S WATER AND WASTEWATER SYSTEM AND OPERATIONS**

16    **Q.     WHAT IS YOUR RELATIONSHIP TO PIMA?**

17    A.     I provide consulting services to the water and wastewater companies affiliated with  
18           Robson, including Pima. Specifically, I assist and advise Pima on a variety of  
19           matters related to their ownership and operation of their water and wastewater  
20           system. In my capacity as a consultant to Pima, I have become familiar with their  
21           facilities and operations.

22    **Q.     WHO IS ROBSON?**

23    A.     Robson refers to a group of affiliated companies that developed most of the  
24           residential neighborhoods served by Pima. Pima is one of several water and  
25           wastewater utilities regulated by the Commission that is affiliated with Robson.<sup>1</sup>

26    <sup>1</sup> Direct Testimony of Steven Soriano at 1:11 – 2:4.

1 Q. WOULD YOU DESCRIBE PIMA'S WATER AND WASTEWATER  
2 SYSTEM?

3 A. Pima's water and wastewater system is an integrated system serving the  
4 unincorporated master planned community of Sun Lakes and two subdivisions  
5 immediately adjacent to Sun Lakes. Pima's customer base is approximately 96%  
6 residential customers, with a small number of commercial customers and irrigation  
7 customers.

8 The Pima water system consists of three water plant sites consisting of water  
9 storage tanks and booster pumps. The water plants are interconnected by a looped  
10 distribution system to provide system reliability. In addition, the water plants are  
11 designed to provide reliable service through the use of diesel driven booster pumps  
12 and backup generators. The system is designed to provide a 1,000 gallon per  
13 minute fire flow.

14 The water plant sites are fed by six potable wells, each with chlorination  
15 facilities. Four of the potable wells are used exclusively for the potable water  
16 system and two of the wells can be pumped either to the potable water system or  
17 directly to irrigation customers. Two additional wells are dedicated irrigation  
18 wells. The combination of dedicated irrigation wells, dedicated potable wells and  
19 dual use wells provides water supply reliability by allowing operational flexibility  
20 to meet customer demands.

21 The Pima wastewater treatment system consists of a single 2.4 million  
22 gallon per day wastewater reclamation facility ("WRF"). The WRF is a sequential  
23 batch reactor facility that includes aerobic digesters, sand filtration and ultra-violet  
24 disinfection. The collection system consists of a gravity collection system with  
25 fifteen lift stations located at various points in the collection system.  
26



1           Effluent from the WRF is recycled by direct delivery of reclaimed water to  
2 the Oakwood Golf Course. The effluent reuse system includes five recharge and  
3 recovery wells. The recharge and recovery wells are used to deliver recovered  
4 effluent to the Oakwood Golf Course and to the Phase III HOA for landscape  
5 watering. All remaining effluent is recharged into the groundwater aquifer directly  
6 beneath the Pima service area, providing a renewable source of groundwater.

7           A detailed description of Pima's water and wastewater systems is attached  
8 as **Exhibit RLJ-DT2**.

9 **Q. WHAT IS YOUR OPINION OF PIMA'S WATER AND WASTEWATER**  
10 **FACILITIES AND OPERATIONS?**

11 A. My observations indicate that Pima's water and wastewater facilities are well  
12 designed, well maintained and provide reliable service to the community. Pima's  
13 operations staff is highly knowledgeable regarding water and wastewater system  
14 operations and operate the systems in an effective and efficient manner.

15 **Q. WHAT IS THE SIGNIFICANCE OF HAVING AN INTEGRATED WATER**  
16 **AND WASTEWATER SYSTEM?**

17 A. Historically, Arizona has relied on groundwater supplies to serve water demands.  
18 This reliance resulted in significant over-drafting of groundwater supplies. In  
19 1980, Arizona adopted the Groundwater Code of 1980 ("Code"). The Code  
20 implemented stringent regulation of groundwater supplies by promoting water  
21 conservation and requiring the use of renewable supplies.

22           As an integrated water and wastewater provider, Pima is well positioned to  
23 utilize renewable effluent supplies to meet water demands and replenish the  
24 groundwater aquifer below its service area. Pima recognizes that groundwater is a  
25 scarce resource, and through the use of reclaimed (recycled) water for turf facilities  
26

1 and recharge of the aquifer, Pima is helping to ensure the long-term sustainable  
2 provision of utility services to its customers.

3 **Q. WOULD YOU SUMMARIZE PIMA'S WATER CONSERVATION**  
4 **PROGRAM?**

5 A. Pima is enrolled as a regulated tier II municipal provider in ADWR's Modified  
6 Non-Per Capita Conservation Program ("NPCCP"). As a part of the program,  
7 Pima reviewed its water and wastewater system and proposed Best Management  
8 Practices ("BMPs") for implementation in the Pima service area. On August 24,  
9 2009 ADWR approved the following BMPs for Pima:

- 10 • Customer High Water Use Inquiry Resolution
- 11 • Customer High Water Use Notification
- 12 • Water Waste Investigations and Information
- 13 • Leak Detection Program
- 14 • Meter Repair and/or Replacement Program

15 In addition to the BMPs, Pima has implemented a Public Education Program  
16 as required by the NPCCP.

17 **Q. WHAT ARE THE COMPONENTS OF PIMA'S PUBLIC EDUCATION**  
18 **PROGRAM?**

19 A. Pima provides water conservation education through two primary communication  
20 channels. Pima provides water wise tips to each of its customers through a note on  
21 the water bill during most months. Pima also makes AWWA conservation  
22 brochures available in all of the country clubs (4) and at its Sun Lakes offices. In  
23 addition, articles written by Pima are placed in the Sun Lakes community  
24 newspaper.

1 **Q. DOES PIMA HAVE A PROGRAM TO ADDRESS WATER LOSSES?**

2 A. Yes. All water providers in the Phoenix Active Management Area are required to  
3 track and report water losses to ADWR. Pima closely monitors this data and  
4 implements corrective action as warranted. Pima has a residential meter  
5 replacement program and has recently implemented a commercial meter  
6 replacement program.

7 **Q. WHAT ARE PIMA'S LOST AND UNACCOUNTED FOR WATER**  
8 **PERCENTAGES FOR THE PAST FIVE YEARS?**

9 A. ADWR reports the following 3-year averages for Pima:

- 10 • 2006 – 9.51%
- 11 • 2007 – 7.21%
- 12 • 2008 – 4.58%
- 13 • 2009 – 6.12%

14 The lost and unaccounted for water percentage reported to ADWR for calendar  
15 year 2010 was 9.25%.

16 **III. PLANT ADDITIONS SINCE LAST RATE CASE**

17 **Q. WHAT IS PIMA'S MOST RECENT TEST YEAR USED FOR**  
18 **RATEMAKING?**

19 A. The Company's last water rate case was filed based on a 1992 test year and the  
20 Company's last wastewater rate case was filed based on a 1997 test year.

21 **Q. PLEASE DESCRIBE THE MAJOR WATER PLANT ADDITIONS ADDED**  
22 **SINCE THE LAST WATER TEST YEAR.**

23 A. Pima has addressed aging water infrastructure by rehabilitating and rebuilding  
24 several facilities. Well 27, Water Plant #1 and Water Plant #2 have been  
25 rehabilitated and rebuilt since the last rate water case. Pima has also implemented  
26 a service line replacement program to address failing polyethylene water services.

1 To date approximately 3,500 services have been replaced. The major water system  
2 improvements are more fully described in **Exhibit RLJ-DT3**.

3 **Q. PLEASE DESCRIBE THE MAJOR WASTEWATER PLANT ADDITIONS**  
4 **ADDED SINCE THE LAST WASTEWATER TEST YEAR?**

5 A. Pima completed the final phase of fully integrating its water and wastewater system  
6 in 1998. The final phase of system integration included construction of Phase two,  
7 the water reclamation facility, four recharge/recovery wells (RW-1, 2, 4 & 5) and  
8 some components of the reclaimed water distribution system. Pima installed a fifth  
9 recharge/recovery well (RW-3) in 2008.

10 Pima has also made enhancements to the wastewater reclamation facility by  
11 upgrading the filter in 2000 and 2005, replacing the odor control system in 2005  
12 and rebuilding the head works in 2008. The wastewater collection system has also  
13 received attention with nine lift stations receiving major improvements or  
14 rehabilitation since the last wastewater rate case. A complete description of the  
15 major wastewater system improvements is provided in **Exhibit RLJ-DT4**.

16 **IV. B-2 PLANT SCHEDULES**

17 **Q. DID YOU ASSIST WITH PREPARATION OF THE B-2 SCHEDULES FOR**  
18 **THIS FILING?**

19 A. Yes, I conducted a comprehensive review of Pima's fixed asset records and  
20 prepared portions of the B-2 Schedules for this filing.

21 **Q. PLEASE DESCRIBE THE SCOPE OF YOUR REVIEW OF PIMA'S FIXED**  
22 **ASSET RECORDS.**

23 A. Pima provided me with a comprehensive listing of all fixed asset ledger entries for  
24 both the water division and wastewater division. Working with Pima management  
25 and operations personnel, each individual ledger entry was reviewed to determine  
26 the following:

- Is the asset entry an appropriate plant entry per the NARUC system of accounts?
- Is the asset entry charged to the correct utility service?
- Is the asset entry charged to the correct NARUC plant account?

**Q. WHAT CONCLUSIONS DID YOU REACH AFTER YOUR FIXED ASSET RECORD REVIEW?**

A. I found Pima's records to be generally in good order and in compliance with the NARUC system of accounts. The asset entries were generally complete with detailed descriptions and good backup documentation.

A few items were discovered that needed attention.

- Plant retirements were not being made in strict adherence to NARUC.
- Some asset items were physically retired, but not retired on Pima's books.
- Some assets were classified to the wrong service.
- Some assets were classified to the wrong NARUC plant account or required further breakdown to additional NARUC plant accounts.

**Q. WHAT ACTIONS DID YOU TAKE AFTER YOUR FIXED ASSET REVIEW?**

A. I constructed an Excel spreadsheet for each service listing all fixed assets entries. The line items in the listing were coded to indicate the following:

- Entries that are classified to the incorrect service.
- Entries that are plant retirements.
- The correct NARUC plant account.
- Assets that were no longer in service, but not retired.
  - For assets not in service the retirement date and replacing asset were identified.

Line items were added to the spreadsheet to account for assets disposed of but no longer listed on the asset listing, and to account for assets that were incorrectly listed on the other service division's asset ledger.

**Q. CAN YOU SUMMARIZE THE FINDINGS FROM YOUR REVIEW OF THE WATER ASSET LISTING?**

A. The table below reconciles and summarizes my findings.

Water Plant In Service Per Books	17,904,574
Less: Wastewater Plant on Water Books	(2,821,059)
Less: Unbooked Retirements	(567,910)
Plus: Water Plant on Sewer Books	<u>15,403</u>
Adjusted Water Plant In Service Per Books	14,531,008
Correction to Match Last Rate Order	<u>15,121</u>
Adjusted Water Plant in Service	14,546,129

**Q. CAN YOU SUMMARIZE THE FINDINGS FROM YOUR REVIEW OF THE WASTEWATER ASSET LISTING?**

A. The table below reconciles and summarizes my findings.

Wastewater Plant In Service Per Books	19,847,116
Less: Water Plant	(15,403)
Less: Unbooked Retirements	(1,314,477)
Plus: Wastewater Plant on Water Books	<u>2,821,059</u>
Adjusted Wastewater Plant In Service	21,338,296

**Q. WHAT DID YOU DO NEXT?**

A. The updated asset entries were used to prepare B-2 Schedule, pages 3.1 to 3.19 for the water division and pages 3.1 to 3.18 for the wastewater division. The updated entries were also the basis for the adjustments shown on Schedule B-2, page 3 for each division.

1 The B-2 Schedule, pages 3.1 to 3.19 were constructed as follows:

- 2 • The book balances for plant and accumulated depreciation at the end of  
3 the last test year were reconciled to the balances indicated in the  
4 appropriate decision.
- 5     ▪ I was unable to reconcile \$15,121 of the plant in service from the last  
6 water division rate decision to current books. An adjustment was  
7 made to include this previously ordered plant in service amount.
- 8 • Since accumulated depreciation was calculated on a composite basis in  
9 the last rate cases, accumulated depreciation was allocated to the  
10 individual plant accounts.
- 11 • From these reconciled beginning balances, plant additions, adjustments,  
12 retirements, depreciation, plant balances and accumulated depreciation  
13 were calculated and brought forward for each year from the previous test  
14 year to year-end 2010.
- 15     ▪ Depreciation was calculated using the depreciation rates specified in  
16 the appropriate decision or using Utilities Division Staff  
17 recommended rates for NARUC plant accounts not specified in  
18 previous orders.

13  
14 **Q. WHAT IS THE END RESULT OF YOUR REVIEW AND CONSTRUCTION**  
15 **OF THE B-2 DETAIL SCHEDULES?**

16 A. The result is calculated plant in service balances and accumulated depreciation  
17 balances for year end 2010 that are consistent with the NARUC system of accounts  
18 and the previous rate orders. These balances are the appropriate balances to use in  
19 determining Pima's rate base and depreciation expense.

20 **Q. CAN YOU EXPLAIN THE LARGE AMOUNT OF WASTEWATER PLANT**  
21 **RECORDED ON THE WATER DIVISIONS BOOKS?**

22 A. Yes. The vast majority of the wastewater plant recorded on the water division's  
23 books is related to the five recharge and recovery wells and related components of  
24 the reuse system. My review indicates that the primary function of these wells is  
25 recharge of wastewater from the WRF. A portion of the recharged water is later  
26 recovered and delivered to irrigation customers. It appears that since the assets

1 were wells, they were incorrectly recorded on the water company's books. The  
2 recharge and recovery wells are more appropriately wastewater division assets and  
3 should be included in the plant balances for the wastewater division.

4 **Q. PLEASE EXPLAIN THE UNBOOKED RETIREMENTS.**

5 A. The unbooked retirements resulted from Pima physically removing assets from  
6 service without retiring the plant from its books. Based on the detailed asset  
7 review, the unbooked retirements were identified and accounted for on the B-2  
8 schedules during the year they were actually removed from service.

9 **Q. WHAT HAS PIMA DONE TO ADDRESS UNBOOKED RETIREMENTS**  
10 **ON A GOING FORWARD BASIS?**

11 A. With my assistance, Pima has developed and adopted a retirement policy (attached  
12 as **Exhibit RLJ-DT5**) and put processes in place to ensure timely retirement of  
13 assets on a going forward basis.

14 **V. DEFERRED OPERATING COSTS**

15 **Q. IS PIMA SEEKING RECOVERY FOR DEFERRED OPERATING COSTS?**

16 A. Yes, Pima deferred wastewater treatment plant operating and maintenance costs  
17 pursuant to Decision No. 59130 (June 27, 1995) and is seeking recovery of those  
18 costs at this time.

19 **Q. PLEASE EXPLAIN THE ORIGIN AND AMOUNT OF THE DEFERRED**  
20 **COSTS.**

21 A. Decision No. 59130 authorized deferral of 30% of the increased costs of operating  
22 the new wastewater treatment plant (placed in service in 1997) above the cost of  
23 operating the old wastewater treatment plant until such time as new rates went into  
24 effect. Pima currently seeks recovery of \$314,627 in deferred costs incurred during  
25 1998 and 1999. The requested recovery is 30% of the total difference in operating  
26 costs of \$1,048,756 as prescribed in Decision No. 59130.



1 **Q. WAS PIMA GRANTED RECOVERY FOR THESE DEFERRED COSTS IN**  
2 **DECISION NO. 62184 (JANUARY 5, 2000)?**

3 A. No. The costs recovered in Decision No. 62184 were for deferred costs incurred in  
4 1997. The request in this case is for unrecovered deferred cost incurred in 1998  
5 and 1999 in the period between the last test year and new rates going into effect.

6 **Q. HOW IS PIMA PROPOSING TO AMORTIZE THE COSTS?**

7 A. Consistent with Decision No. 62184, Pima proposes to recover the costs over five  
8 years for an annual amortization of \$62,925.

9 **VI. INCOME TAX**

10 **Q. WHY IS PIMA REQUESTING INCOME TAX EXPENSE RECOVERY IN**  
11 **THIS CASE?**

12 A. Pima is requesting income tax expense because the net income generated by Pima  
13 through the provision of regulated water and wastewater services is subject to state  
14 and federal income tax. Without income tax recovery, the shareholders of Pima  
15 will receive a lower rate of return on their equity investment than shareholders of  
16 other corporations that receive income tax recovery.

17 **Q. IS PIMA A C-CORP OR AN S-CORP?**

18 A. Pima is organized as an S-Corp.

19 **Q. HOW IS THE INCOME OF S-CORPS TAXED?**

20 A. The tax liability for regular income is passed-through to the shareholders of the  
21 corporation with individual shareholders paying the income tax due on their share  
22 of the S-Corp income. In certain limited circumstances, S-Corps pay income tax  
23 directly.

1 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED INCOME TAX**  
2 **RECOVERY FOR S-CORPS?**

3 A. Yes, and Utilities Division Staff has recommended against such income tax  
4 recovery and the Commission has followed this recommendation.

5 **Q. THEN WHY IS PIMA SEEKING INCOME TAX RECOVERY?**

6 A. Because the Commission is reviewing the issue in its ongoing water workshops  
7 (Docket No. W-00000C-06-0149) and Pima believes it is entitled to recover this  
8 cost as part of its cost of service. I can explain it this way.

9 The passed-through tax liability incurred by Pima's shareholders would not  
10 exist absent the provision of regulated water and wastewater services by Pima. The  
11 income taxes are "inescapable business outlays and are directly comparable with  
12 similar corporate taxes."<sup>2</sup> Like any other expense prudently incurred in the  
13 operation of a regulated entity, the income tax expense should be recovered in rates  
14 of the regulated entity.

15 **Q. HAS PIMA PARTICIPATED IN THE WORKSHOP PROCESS?**

16 A. Yes. Representatives of Pima have attended the workshops and Pima has retained  
17 me to represent their interests in the workshop process.

18 **Q. WAS THE POSITION YOU'VE TAKEN HERE PRESENTED IN THE**  
19 **WATER WORKSHOP PROCESS?**

20 A. Yes. I made the presentation attached as **Exhibit RLJ-DT6** in the water workshop  
21 held on March 25, 2011 on behalf of Pima and others.

22

23

24

25

26 <sup>2</sup> *Suburban Utility Corp. v. Public Utility Com'n of Texas* 652 S.W.2d 358 (Tex. 1983).

1 **Q. HAS THE FEDERAL REGULATORY ENERGY COMMISSION ("FERC")**  
2 **ADDRESSED THIS ISSUE?**

3 A. Yes. FERC issued a *Policy Statement on Income Tax Allowances* on May 4, 2005  
4 (111 FERC ¶ 61,139).<sup>3</sup>

5 **Q. WHAT IS FERC'S POLICY ON INCOME TAX RECOVERY FOR PASS-**  
6 **THROUGH ENTITIES?**

7 A. FERC concluded that it should:

8 ...permit an income tax allowance for all entities or  
9 individuals owning public utility assets, provided an entity or  
10 individual has an actual or potential income tax liability to be  
11 paid on that income from those assets.<sup>4</sup>

12 In support of its conclusion, FERC stated:

13 While the pass-through entity does not itself pay income  
14 taxes, the owners of a pass-through entity pay income taxes  
15 on the utility income generated by the assets they own via the  
16 device of the pass-through entity. Therefore, the taxes paid  
17 by the owners of the pass-through entity are just as much a  
18 cost of acquiring and operating the assets of that entity as if  
19 the utility assets were owned by a corporation.<sup>5</sup>

20 **Q. IS PIMA PROPOSING THAT THE COMMISSION FOLLOW THE FERC**  
21 **POLICY ON INCOME TAX RECOVERY?**

22 A. Yes. The FERC Policy is comprehensive in scope, well-reasoned and thoroughly  
23 vetted and should be adopted by the Commission. However, Pima has not used the  
24 FERC presumed marginal income tax rates of 28 percent for individuals and  
25 35 percent for corporate entities. Instead, Pima determined the tax rate for each  
26 shareholder/taxpayer individually. Pima believes that since it has twenty  
shareholders, some with relatively small percentages of ownership, use of the

<sup>3</sup> A copy of FERC's *Policy Statement on Income Tax Allowances* ("Policy Statement") is attached to the Direct Testimony of Thomas J. Bourassa (Rate Base) at Exhibit TJB-RB-DT1.

<sup>4</sup> *Id.* at 32.

<sup>5</sup> *Id.* at 33.

1 FERC presumptive rates is not appropriate in this instance. As explained by  
2 Mr. Bourassa, use of individual tax rates results in a lower composite tax rate for  
3 Pima and lower cost to ratepayers.

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes.

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Pima Utility Company

Ray Jones Direct Testimony

**Exhibit RLJ-DT1**

**Ray L. Jones P.E.**  
**Principal**  
**ARICOR Water Solutions, LC**  
**25213 N. 49<sup>th</sup> Drive**  
**Phoenix, Arizona 85083**

**EMPLOYMENT HISTORY**

2004 – Present

**ARICOR Water Solutions**

**Principal**

ARICOR Water Solutions offers a wide range of services to the private and public sectors. Projects include water resources strategy development, water rights evaluation and development of regulatory strategies. Services also include consultation on water and wastewater utility formation, management and operations, and valuation, including due diligence analysis and preparation of financial schedules and testimony in support of CC&N, Rate Case and other filings before the Arizona Corporation Commission. ARICOR Water Solutions provides water, wastewater and water resource master planning, water and wastewater facilities design, and owner representation; including value engineering, program management and construction oversight. Lastly, ARICOR Water Solutions supports water solutions with contract operations and expert witness testimony and litigation support.

2002 to 2004

**Arizona-American Water Company**

**President**

Responsible for leadership of the Arizona business activities of Arizona-American Water Company. Key responsibilities include developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.

1998 to 2002

**Citizens Water Resources, Arizona Operations**

**Vice President and General Manager**

Responsible for leadership of the Arizona regulated and unregulated business activities of Citizens Water Resources. Key responsibilities included developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.

1990 to 1998

**Citizens Water Resources, Arizona Operations**

**Engineering and Development Services Manager**

Responsible for management of a diverse group of business growth related activities. Responsibilities include: marketing of operation and maintenance services (unregulated business growth), management of new development activity (regulated business growth), management of engineering functions (infrastructure planning and construction), management of water resources planning and compliance, management of growth-related regulatory functions (CC&N's and Franchises), and management of capital budgeting functions and capital accounting functions.

1985 to 1990

**Citizens Water Resources, Arizona Operations**

**Civil Engineer**

Responsible for the planning, coordination and supervision of capital expansion and major maintenance and rehabilitation projects as assigned. Responsible for development of capital program for Maricopa County Operations.

**EDUCATION**

Arizona State University – Master of Business Administration (1991)

University of Kansas – Bachelor of Science in Civil Engineering (1985)

**PROFESSIONAL CERTIFICATION**

Registered Professional Engineer – Civil Engineering – Arizona

Professional Engineer – Civil Engineering – California

Certified Operator – Wastewater Treatment, Wastewater Collection, Water Treatment, Water Distribution – Arizona

**PROFESSIONAL AFFILIATIONS**

- Director - Water Utilities Association of Arizona (1998 – 2004)
- Member - American Society of Professional Engineers
- Member - American Water Works Association
- Member - Arizona Water Pollution Control Association
- Member - Water Environment Federation

**CIVIC AND COMMUNITY INVOLVEMENT**

- Advisory Member - Water Resources Development Commission (2010 – Present)
- Board of Directors – Greater Maricopa FTZ, Inc. (2009 – Present)
- Chairman WESTMARC (2008)
- Director and Member of the Executive Committee- WESTMARC (1998 – Present)
- Co-Chairman, WESTMARC Water Committee (2006 – 2007)
- Chairman-Elect WESTMARC (2007)
- Member – Corporate Contributions Committee, West Valley Fine Arts Council Diamond Ball (Chairman 2005)
- Member – Technical Advisory Committee – Governor's Water Management Commission (2001)
- Board Member, Manager & Past Chairman – North Valley Little League Softball

**REGULATORY EXPERIENCE**

Testimony has been provided before the Arizona Corporation Commission in the dockets listed below. Unless otherwise indicated testimony was provided on behalf of the utility.

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
1992	Sun City West Utilities Company	CC&N Extension (Expansion of Sun City West)	U-2334-92-244
1993	Sun City Water Company Sun City Sewer Company	CC&N Extension (Addition of Coyote Lakes)	U-1656-93-060 U-2276-93-060
1993	Tubac Valley Water Co., Inc.	CC&N Extension (Various Subdivisions on western border)	U-1595-93-241
1993	Sun City West Utilities Company	CC&N Extension (Expansion of Sun City West)	U-2334-93-293
1995	Citizens Utilities Company Sun City Water Company Sun City Sewer Company Sun City West Utilities Company Tubac Valley Water Company	Ratemaking	E-1032-95-417 U-1656-95-417 U-2276-95-417 U-2334-95-417 U-1595-95-417
1996	City Water Company Sun City Sewer Company	CC&N Extension (Acquisition of Youngtown)	U-1656-96-282 U-2276-96-282
1996	Citizens Utilities Company	CC&N Extension and Deletion (Realignment of Surprise Bdry.)	E-1032-96-518
1998	Sun City Water Company Sun City West Utilities Company	CAP Water Plan and Accounting Order (Sun Cities CAP plan)	W-01656A-98-0577 SW-02334A-98-0577

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
2000	Citizens Water Resources Company of Arizona Citizens Water Services Company of Arizona	CC&N Extension and Accounting Order (Anthen Jacka Property and Phoenix Treatment Agreement)	SW-3455-00-1022 SW-3454-00-1022
2000	Citizens Communications Company Citizens Water Services Company of Arizona	CC&N Extension and Approval of Hook-Up Fee (Verrado)	W-0132B-00-1043 SW-0354A-00-1043
2002	Arizona-American Water Company	Ratemaking	WS-01303A-02-0867 WS-01303A-02-0868 WS-01303A-02-0869 WS-01303A-02-0870 WS-01303A-02-0908
2004	Arizona-American Water Company Rancho Cabrillo Water Company Rancho Cabrillo Sewer Company	CC&N Transfer	WS-01303A-04-0089 W-01303A-04-0089 SW-03898A-04-0089
2004	Johnson Utilities Company, LLC (Representing Pulte Home Corporation)	CC&N Extension	WS-02987A-04-0288
2005	Perkins Mountain Utility Company Perkins Mountain Water Company	New CC&N & Initial Rates	WS-20379A-05-0489 W-20380A-05-0490
2005	West End Water Company	CC&N Extension	W-01157A-05-706
2005	Arizona-American Water Company	Approvals Associated with Construction of Surface Water Treatment Facility	W-01303A-05-0718
2006	Arizona-American Water Company	Ratemaking	WS-01303A-06-0403
2008	Sunrise Water Company	Ratemaking	W-02069A-08-0406
2009	Baca Float Water Company	Ratemaking	WS-01678A-09-0376
2009	Aubrey Water Company	Lost Water Evaluation (Rate Case Compliance)	W-03476A-06-0425
2009	White Horse Ranch Owner's Assn.	Ratemaking	W-04161A-09-0471
2010	Litchfield Park Service Company	Ratemaking	W-01427A-09-0104

9/1/10



Pima Utility Company

Ray Jones Direct Testimony

**Exhibit RLJ-DT2**

**PIMA UTILITY COMPANY**  
**Water and Wastewater System Description**  
**August 23, 2011**

**General**

Pima Utility Company ("Pima") was formed in 1972 to provide water and wastewater services to the unincorporated master planned community of Sun Lakes, located in southeastern Maricopa County. Sun Lakes was built in three phases between 1973 and 2008 and currently consists of approximately 10,000 homes with supporting neighborhood commercial development.

In addition to Sun Lakes, Pima serves two subdivisions immediately adjacent to Sun Lakes, Oakwood Hills Subdivision and San Tan Vista Subdivision. Oakwood Hills was developed in 1991 and consists of 32 custom home lots. San Tan Vista began development in 2004 and consists of 95 custom home lots. San Tan Vista is the only development served by Pima that is a member land in the Central Arizona Groundwater Replenishment District.

As of year-end 2010, Pima served approximately 10,175 water connections and 10,051 wastewater connections. Pima's customer base is approximately 96% residential customers, with only 196 commercial customers and 4 irrigation customers. Nearly all of the residential customers are served by 5/8"x 3/4" meters. The commercial customers are served by meters ranging from 5/8"x 3/4" to 2" in size.

**Water System**

The Pima water system consists of three (3) water plant sites consisting of water storage tanks and booster pumps. The water plants are interconnected by a looped distribution system to provide system reliability. In addition, the water plants are designed to provide reliable service through the use of diesel driven booster pumps and backup generators. The system is designed to provide a 1,000 gallon per minute fire flow.

The water plant sites are feed by six (6) potable wells, each with chlorination facilities. Four (4) of the potable wells are used exclusively for the potable water system and two (2) of the wells can be pumped either to the potable water system or directly to irrigation customers. Two (2) additional wells are dedicated irrigation wells. The combination of dedicated irrigation wells, dedicated potable wells and dual use wells provides water supply reliability by allowing operational flexibility to meet customer demands.

The water system facilities are summarized below:

**Potable Wells:**

Well 31 – 55-625798 – at WP #1 – Used for potable water only

Well 34 – 55-514527 – at WP#2 – Used for potable water only

Well 33 – 55-625800 – Pumps to WP#2, WP #1, Phase I HOA (Sun Lakes Country Club) and Phase II HOA (Cottonwood Country Club) – Used for potable water and irrigation

Well 29A – 55-806730 – at WP #3 – Used for potable water only, Permitted as effluent recovery well

Well 29B – 55-566937 – Pumps to WP#3 – Used for potable water only

Well 27 – 55-520891 – Primarily used for irrigation supply at Oakwood Golf Course and Ironwood lakes – Also pumps to WP#3 and is used as backup potable water – Permitted as effluent recovery well

**Irrigation Wells:**

Well 29 – 55-625796 – Irrigation well for Oakwood Golf Course – Permitted as effluent recovery well

Well 32 – 55-625799 – Irrigation well for Phase II HOA (Palo Verde Country Club and Cottonwood Golf)

**Water Plants:**

WP#1 – 400,000 gallons storage (1 tank), 4 booster pumps (1 can be powered by either electric or diesel)

WP #2 – 650,000 gallons storage (1 tank), 6 electric booster pumps, 1 diesel booster pump

WP #3 – Two 750,000 gallon storage tanks, 4 electric booster pumps, backup generator

**Wastewater System**

The Pima wastewater treatment system consists of a single 2.4 million gallon per day wastewater reclamation facility (WRF). The WRF is a sequential batch reactor facility that includes aerobic digesters, sand filtration and ultra-violet disinfection. The collection system consists of a gravity collection system with 15 lift stations located at various points in the collection system.

Effluent from the WRF is recycled by direct delivery of reclaimed water to the Oakwood Golf Course. The effluent reuse system includes five recharge and recovery wells. The recharge and recovery wells are used to deliver recovered effluent to the Oakwook Golf Course and to the Phase III HOA for landscape watering. All remaining effluent is recharged into the groundwater aquifer directly beneath the Pima service area providing a renewable source of groundwater.

The wastewater system facilities are summarized below:

**Wastewater Facilities:**

WRF – 2.4 MGD Sequential Batch Reactor

Lift Stations – 15 lift stations located in service area

**Recharge Recovery Wells:**

RR Well #1 – 55-554079 – Located on Oakwood Golf Course at intersection of Desert Dr. and Cedar Waxing Dr.

RR Well #2 – 55-561907 – Located on Oakwood Golf Course on E.J. Robson Blvd.

RR Well #3 – 55-211808 – Located in southeast corner of RV Storage Facility

RR Well #4 – 55-561906 – Located on Oakwood Golf Course on Champagne Dr.

RR Well #5 – 55-566383 – Located on Oakwood Golf Course on Arrow Vale Dr.

Pima Utility Company

Ray Jones Direct Testimony

**Exhibit RLJ-DT3**

**PIMA UTILITY COMPANY**  
**Summary of Major Water System Improvements**  
**August 23, 2011**

**Water System Improvements – Placed in Service after 12/31/1992**

- Well 27 – Rehabilitation - 1999
  - New 150 hp submersible motor and pump
  - Several new steel column pipes
  - SCADA System installed
  
- Water Plant No. 1 – Reconstruction and Rehabilitation – 2000
  - Storage Tank recoated and cathodic protection refurbished
  - Complete replacement of above ground and below ground piping
  - Replaced hydropneumatic tank
  - SCADA system installed
  
- Water Plant No. 2 – Reconstruction and Rehabilitation - 2007
  - Storage Tank recoated and liner installed
  - Complete replacement of above ground and below ground piping
  - Electrical gear refurbished
  - SCADA system installed
  
- Service Line Replacement Project – 2000 through 2010
  - Ongoing replacement program. Approximately 3,500 polyethylene service lines replaced with copper piping, new meters and in most cases new corporation and meter stops.

Pima Utility Company

Ray Jones Direct Testimony

**Exhibit RLJ-DT4**

**PIMA UTILITY COMPANY**  
**Summary of Major Wastewater System Improvements**  
**August 23, 2011**

**Wastewater System Improvements – Placed in Service after 12/31/1997**

- Phase 2 Water Reclamation Facility - 1998
  - Second centrifuge
  - 4<sup>th</sup> bank of UV
  - 20 hp sump pump in post equalization basin
  - Liquid sludge holding tank with piping for pump back
  - 3<sup>rd</sup> post equalization basin pump
  - Modified filter side troughs
  - 4 valves for filter draining and maintenance.
- WRF Filter Upgrade - 2000
  - Improved filter influent channels
  - Replaced filter media
- WWTP Gravity Line Replacement - 2004
  - 20" diameter gravity line in the plant was replaced
- Odor Control System Replacement - 2005
  - Complete replacement of odor control system due to loss of old scrubber from fire.
- WRF Filter Retrofit & Improvement – 2005
  - Retrofitted filter with new under drain and back wash system
  - Replaced filter media
  - Upgraded control system and replaced PLC
- WRF Headwork's Rehabilitation - 2008
  - Headwork's piping and valves were replaced
  - Rotating screens were raised
- Recharge/Recovery Well No. 1 - 1998
  - 210' – 12" steel casing
  - 140 feet of 6 inch stainless steel column pipe
  - 500 gpm pump
  - Stainless steel VOV Smart valve with hydraulic pump and controls
  - Piping system with vault
  - 3 motor operated valves
  - 3 water specialty meters
  - SCADA system

- Recharge/Recovery Well No. 2 - 1998
  - 220' – 14" steel casing
  - 140 feet of stainless steel column pipe
  - 6 inch stainless steel VOV smart valve
  - 500 gpm pump
  - Piping and vault system
  - 3 motor operated valves
  - 3 water specialties meters
  - SCADA system
  
- Recharge/Recovery Well No. 3 – 2008
  - 218' – 16" stainless steel casing
  - 500 gpm pump
  - Stainless steel VOV smart valve
  - 2 motor operated valves
  - Piping system with 2 water specialties meters
  - SCADA system
  
- Recharge/Recovery Well No. 4 - 1998
  - 220' – 14" steel casing
  - 140 feet of stainless steel column pipe
  - 6 inch stainless steel VOV smart valve
  - 500 gpm pump
  - Piping and vault system
  - 3 motor operated valves
  - 3 water specialties meters
  - SCADA system
  
- Recharge/Recovery Well No. 5 - 1998
  - 220" – 14 steel casing
  - 140 feet stainless steel column pipe
  - 6 inch VOV smart valve
  - 500 gpm pump
  - Piping and vault system
  - 3 motor operated valves
  - 3 water specialties meters
  - SCADA system
  
- Price Road Effluent Line - 1998
  - 1,200 feet of effluent piping replaced



- Lift Station No 1 (Maryland) – Rehabilitation – 1998
  - Vault cleaned, gutted and coated with Sewer Shield cement coating
  - Piping and pump bases replaced
  - Pumps rebuilt
  - Permanent emergency bypass piping installed
- Lift Station No 5 (North Brentwood) – Rehabilitation - 2009
  - Vault gutted, cleaned and coated with Sewer Shield cement coating.
  - Piping and pump bases replaced.
  - Pumps rebuilt
  - Permanent emergency bypass piping installed.
  - New aluminum access cover installed
  - H2S vent line and filter installed
- Lift Station No 3 (Cochise) – Rehabilitation - 2004
  - Vault gutted, cleaned and coated with Sewer Shield cement coating.
  - Piping and pump bases replaced.
  - Pumps rebuilt
  - Permanent emergency bypass piping installed.
  - New aluminum access cover installed
  - H2S vent line and filter installed
- Lift Station No 7 (North Alma School) – Rehabilitation - 1998
  - Vault gutted, cleaned and coated with Sewer Shield cement coating.
  - Piping and pump bases replaced.
  - Pumps rebuilt
  - Permanent emergency bypass piping installed.
  - New aluminum access cover installed
- Lift Station No 8 (Santan) – Rehabilitation - 1999
  - Vault gutted, cleaned and coated with Sewer Shield cement coating.
  - Piping and pump bases replaced.
  - Pumps rebuilt
  - Permanent emergency bypass piping installed.
  - New aluminum access cover installed
- Lift Station No 9 (Sunnydale) – Rehabilitation - 2000
  - Vault gutted, cleaned and coated with Sewer Shield cement coating.
  - Piping and pump bases replaced.
  - Pumps rebuilt
  - Permanent emergency bypass piping installed.
  - New aluminum access cover installed

- Lift Station No 10 (Unit 27) – Rehabilitation - 2000
  - Vault gutted, cleaned and coated with Sewer Shield cement coating.
  - Piping and pump bases replaced.
  - Pumps rebuilt
  - Permanent emergency bypass piping installed.
  - New aluminum access cover installed
  
- Lift Station No 12 (Unit 32) – Rehabilitation – 2009
  - Replaced piping in discharge valve vault
  
- Lift Station No 2 (Dobson) – Rehabilitation – 2005 & 2009
  - New vault
  - New pumps
  - New electrical system
  - New pipes and overflow pipe
  - Relocate check valves in vault outside of the wet well

Pima Utility Company

Ray Jones Direct Testimony

**Exhibit RLJ-DT5**

# **Pima Utility Company**

## **Asset Capitalization and Retirement Policy**

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**Policy Description:** This policy shall be used to determine whether expenditures should be capitalized or expensed, the manner in which a capital asset is depreciated and shall govern the accounting treatment for capital assets removed from utility service.

**Effective Date:** January 1, 2011

**Version:** 1.0

---

## **1 CAPITALIZATION POLICY**

### **1.1 Purpose**

The purpose of capitalizing expenditures as capital assets is to provide for an equitable allocation of the cost of long-lived assets with significant costs among existing and future customers. The costs of capital assets are allocated over the estimated useful life of the class of assets to which they belong through the recording of depreciation expense.

### **1.2 Capitalization Policy**

Costs should be capitalized in the utility plant accounts, rather than being expensed in the current year, if the service life of the item is more than one year and the cost is greater than \$500.00.

Capitalized costs typically include:

- Costs to purchase or construct new assets.
- Costs of assets constructed by developers and contributed or advanced.
- Costs to replace assets.
- Costs for expenditures that effect a substantial betterment to an asset. – Substantial betterments are expenditures that significantly extend the service life of the affected asset or expenditures that are made with the primary purpose to make the asset affected more useful, more efficient, of greater durability or of greater capacity.

For items of general plant, such as office equipment or tools and equipment, or replacements of minor items of utility plant, this policy shall be applied on an individual item basis. For items of construction work or programmed expenditures, this policy shall be applied on a project or work order basis.

For example, items such as an office chair or bookshelf costing less than \$500.00 purchased individually would be expensed. Similarly, replacement of a single small diameter gate valve costing less than \$500.00 at an existing facility would be expensed.

In contrast, if furnishings were being purchased for a new building under construction, the total cost of all of the furnishings would be capitalized without regard to the cost on an individual item. Similarly, while an individual water meter is likely to cost less than \$750.00, the purchase of water meters would be

**Pima Utility Company**  
**Asset Capitalization and Retirement Policy**

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capitalized as part of an annual work order for installation or replacement of water meters. Likewise, a small diameter valve being installed in a new facility under construction would be capitalized along with all of the other components of the facility.

All capital expenditures should be recorded in the Company's plant accounts in accordance with the requirements of the 1996 editions of the *Uniform System of Accounts for Class A Water Utilities* or the *Uniform System of Accounts for Class A Wastewater Utilities* as published by the National Association of Regulatory Utility Commissioners ("NARUC" or "NARUC System of Accounts").

### **1.3 Depreciation Expense**

Depreciation of all capitalized assets shall be calculated and recorded by NARUC plant account (group method) using a half-year convention and at the depreciation rates prescribed in the most recent Order of the Arizona Corporation Commission.

---

## **2 RETIREMENT POLICY**

### **2.1 Purpose**

The purpose of retiring assets is to insure that the cost of capitalized assets no longer in utility service are properly accounted for on the Company's books and properly reflected in the rates charged to customers.

### **2.2 Retirement Policy**

When an asset or portion of an asset is replaced or otherwise removed from utility service, the asset or portion of asset must be retired from utility plant. The following accounting entries are needed to retire the asset or portion of asset:

- The book cost of the retired asset shall be credited to the plant account in which it is included.
- If the retired asset is of a depreciable class, the book cost of the retired asset will be charged (debited) to the accumulated depreciation account applicable to the retired asset.
- The cost of removal, if any, shall be charged (debited) to the accumulated depreciation account applicable to the asset.
- The salvage value, if any, shall be credited to the accumulated depreciation account applicable to the asset.

A gain or loss is not ordinarily recorded upon retirement of a utility asset, with one primary exception - the sale of non-depreciable land for an amount other than the original cost.

Retirement of assets in the Land and Land Rights or Franchises plant accounts should be retired in accordance with specific instructions provided in the NARUC System of Accounts.

### **2.3 Determination of Book Cost**

The book cost of utility assets retired shall be the amount at which such property is included in the utility plant accounts, including all components of construction costs. The book cost shall be determined from the utility's records and if this cannot be done, it shall be estimated. When it is impractical to determine the book cost of each asset, due to the relatively large number or small cost thereof, an appropriate average book cost of the assets, with due allowance for any difference in size and character, shall be used as the book cost of the assets retired.

Pima Utility Company

Ray Jones Direct Testimony

**Exhibit RLJ-DT6**

# Arizona Corporation Commission

Recovery of Income Tax Expense:  
Partnerships, S-Corps, and LLCs

**ARICOR**  
Water Solutions

Docket No. W-00000174

March 25, 2017

# Income Tax Basics

- ▶ Although taxed differently the income of all utilities is subject to taxation.
- ▶ Utility income is taxed differently depending upon the form of business enterprise.
  - The income of standalone C-Corps is taxed at the corporate level with shareholders being individually taxed on distributions from the corporation.
  - The income of Sole Proprietorships, Partnerships, S-Corps and most LLCs are taxed at the shareholder level whether or not the income is distributed to the shareholder. Distributions are not subject to additional taxation.
  - The income of subsidiary C-Corps is typically consolidated by the ultimate corporate parent, where it is netted against income and/or losses from other subsidiaries. Like Partnerships, S-Corps, and LLCs, dividends to the parent shareholder are not taxable.



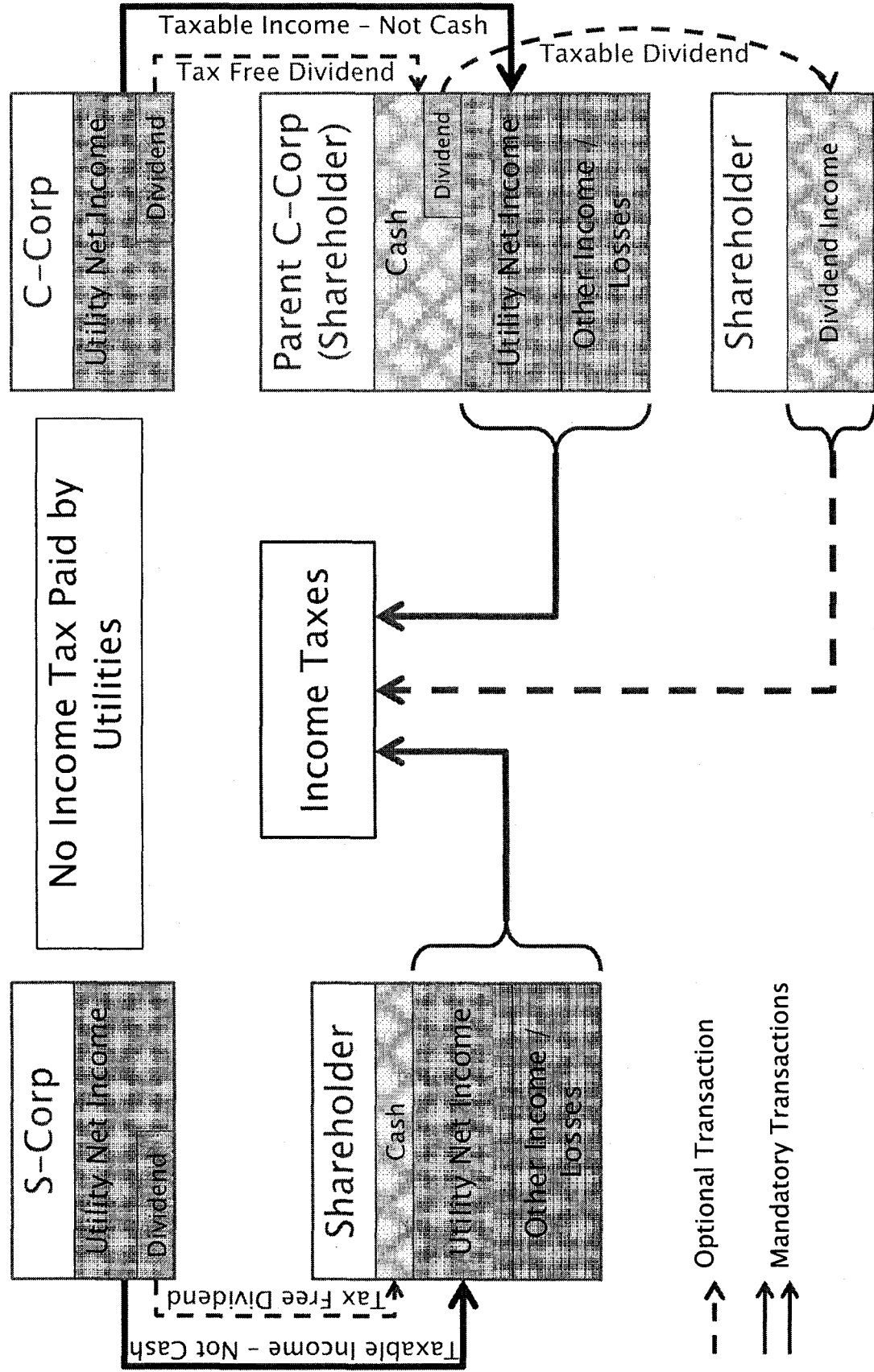
# Income Tax Basics

- ▶ Most large Arizona utilities are C-Corps that are part of consolidated tax groups. They are taxable entities, but do not pay income taxes.
  - Rather their taxable income is consolidated at the parent company level, with income taxes due, if any, being paid by the parent corporation.
  - APS/Pinnacle West; TEP/UniSource; Arizona-American/American Water; Global Utilities/Global Water
- ▶ Many Arizona Utilities are actually operating divisions of C-Corps. They do not pay income taxes.
  - Rather their taxable income is consolidated first with other operating divisions and ultimately consolidated at the parent company level, with income taxes due, if any, being paid by the parent corporation.
- ▶ All of these C-Corp entities recover income tax expense in their rates set by the Commission.

# Commission Income Tax Treatment of C-Corps

- ▶ Standalone C-Corp
  - Hypothetical income tax expense is calculated and allowed in rates.
  - Rate of Return based on after tax net income.
- ▶ Consolidated C-Corp and/or Operating Division
  - Hypothetical income tax expense is calculated and allowed in rates.
  - Income tax calculated as if the utility was a standalone C-Corp.
  - Actual tax liability of parent, if any, is not considered.
  - Rate of Return based on after tax net income

# Income Tax Flow Chart



# A Matter of Policy

- ▶ The ratemaking treatment of income tax expense is a policy decision made by the Arizona Corporation Commission.
- ▶ The Commission should not limit its consideration to technical and accounting distinctions.
- ▶ The Commission should consider economic reality.
  - Partnership, S-Corp and LLC income is taxed and is paid from utility income.

# A Matter of Policy

- ▶ The Commission should not unfairly discriminate against partnerships, S-Corps or LLCs in favor of C-Corps.
  - Hypothetical income tax calculations are used for C-Corps. They should be allowed for partnerships, S-Corps and LLCs.
  - For many C-Corps the regulated entity does not pay income taxes, rather the income tax liability is passed through to the parent company, which may or may not actually pay income taxes.
  - There is no justifiable reason to allow APS, TEP or Arizona-American Water to recover hypothetical tax expense and to deny partnerships, S-Corps or LLCs similar treatment.
- ▶ Disallowance of income taxes reduces the allowed return on rate base and reduces the funds available for plant investment.

# Lower Rates of Return

	S-Corp		C-Corp	
	Utility	Shareholder	Utility	Shareholder
<u>Income</u>				
Revenue Requirement	1,414,000		1,414,000	
Tax Gross Up	0		57,367	
Revenue Requirement	1,414,000		1,471,367	
Owner Salary	(65,000)	65,000	(65,000)	65,000
Other Expenses	(1,235,000)		(1,235,000)	
Operating Income	114,000		171,367	
Income Tax (Business)		(31,426)	(57,367)	
Income Tax (Owner)		(7,538)		(7,538)
Net Income	114,000	26,036	114,000	57,462
<u>Rate Base and Return</u>				
Rate Base	1,140,000		1,140,000	
ROR (Pre Tax)	10.0%		15.0%	
ROR (Post Tax)	7.2%		10.0%	

# Less Cash Available for Investment

	S-Corp		C-Corp	
	Utility	Shareholder	Utility	Shareholder
<u>Cash Flow</u>				
Net Income	114,000	26,036	114,000	57,462
Depreciation	400,000		400,000	
Available Cash	514,000	26,036	514,000	57,462
Dividend for Taxes	(31,426)	31,426		
Net Available Cash	482,574	57,462	514,000	57,462

# Arizona Allowance of Income Tax

- ▶ Allowed for partnerships and S-Corps prior to Consolidated Water Decision No. 55839 (1/8/88).
  - Corporate tax rate allowed previously.
  - Staff recommended moving to new lower individual rate.
  - Commission allowed no income tax in rates.
- ▶ Subsequently has been periodically allowed.
  - Fisher's Landing Water and Sewer Works, LLC (6/26/02).
  - Winchester Water Company, LLC (9/24/02).
  - Wickenburg Ranch Water, LLC (2/12/09).
  - Staff classifies these cases as errors.
- ▶ Allowed in Camp Verde Water System, Inc. Decision No. 60105 (3/19/97).



# Camp Verde Decision No. 60105

▶ From Decision No. 60105 -

At the hearing, the Company indicated that CoBank would not loan the Company money unless the rates approved herein would provide for income taxes that would be paid by the individual shareholders.

Under the circumstances presented herein, we are not going to adjust the rate of return for income taxes as requested by the Company. We are going to allow income taxes in this case at the lowest individual/corporate income tax rates of 23.36 percent for combined Federal and State income taxes.

- ▶ The Camp Verde case highlights the economic reality that S-Corps have real income tax expenses. Because the bank's investment would only be repaid with after-tax dollars, it insisted on recovery of income-tax expense in rates. The Commission acknowledged economic reality and allowed Camp Verde to recover expected income-tax expense.
- ▶ Put another way, only the funds left over after paying taxes and other business expenses are available to fund additional plant investment or make debt payments. If income-tax expense is not recoverable, the effect is to reduce the allowed return on rate base and diminish the funds available for plant investment.

# Summary

- ▶ Public policy should be based on economic realities and fairness rather than technical and accounting distinctions.
- ▶ It is good public policy to allow income tax recovery for partnerships, S-Corps and LLCs.
  - Partnerships, S-Corps and LLCs are not unfairly discriminated against.
  - Partnerships, S-Corps and LLCs receive the same return on rate base as C-Corps.
  - Partnerships, S-Corps and LLCs have the same funds available for plant investment.
- ▶ The Commission recognized the economic realities of income taxes in the Camp Verde decision and allowed income taxes for an S-Corp.

# Final Thought

“The income taxes required to be paid by shareholders of a Subchapter S corporation on a utility's income are inescapable business outlays and are directly comparable with similar corporate taxes which would have been imposed if the utility operations had been carried on by a corporation.”

Supreme Court of Texas



1 FENNEMORE CRAIG  
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5  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8  
9 IN THE MATTER OF THE APPLICATION  
10 OF PIMA UTILITY COMPANY, AN  
11 ARIZONA CORPORATION, FOR A  
12 DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
ITS WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02199A-11-\_\_\_\_\_

13  
14 IN THE MATTER OF THE APPLICATION  
15 OF PIMA UTILITY COMPANY, AN  
16 ARIZONA CORPORATION, FOR A  
17 DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
ITS WASTEWATER RATES AND  
CHARGES FOR UTILITY SERVICE  
BASED THEREON.

DOCKET NO: SW-02199A-11-\_\_\_\_\_

18  
19  
20  
21 **DIRECT TESTIMONY OF**  
22 **THOMAS J. BOURASSA**  
23 **(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**  
24

25 **August 29, 2011**  
26

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

6 A. I am a Certified Public Accountant and am self-employed, providing consulting  
7 services to utility companies as well as general accounting services. I have a B.S.  
8 in Chemistry and Accounting from Northern Arizona University (1980) and an  
9 M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

10 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND**  
11 **REGULATORY EXPERIENCE?**

12 A. Yes. Prior to becoming a private consultant, I was employed by High-Tech  
13 Institute, Inc., and served as controller and chief financial officer. Prior to working  
14 for High-Tech Institute, I worked as a division controller for the Apollo Group,  
15 Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode,  
16 CPAs. In that position, I prepared compilations and other write-up work for water  
17 and wastewater utilities, as well as tax returns.

18 In my private practice, I have prepared and/or assisted in the preparation of  
19 several water and wastewater utility rate applications before the Arizona  
20 Corporation Commission ("Commission").

21 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

22 A. I am testifying in this proceeding on behalf of the Pima Utility Company ("Pima"  
23 or the "Company"). Pima is seeking increases in its rates and charges for water  
24 and wastewater utility service in its certificated service area.

1 **II. OVERVIEW OF THE COMPANY'S REQUEST FOR RATE RELIEF**

2 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

3 A. I will testify in support of the Company's proposed adjustments to its rates and  
4 charges for water and wastewater utility service. I am sponsoring the direct  
5 schedules, which are filed concurrently herewith in support of the Company's  
6 application. I was responsible for the preparation of these schedules based on my  
7 investigation and review of Pima's relevant books and records, although I note that  
8 Ray Jones, another witness, assisted with the plant, or B schedules.

9 For the convenience of the Commission and the parties, the two portions of  
10 my direct testimony, each with the relevant schedules attached, are being filed  
11 separately in this case. In this volume of my direct testimony, I address the rate  
12 bases, income statements (revenue and operating expenses), required increases in  
13 revenue, and rate designs and proposed rates and charges for service for the  
14 Company's water and wastewater division. Schedules A through C, E through F,  
15 G and H, labeled separately as "Water Division" and "Wastewater Division," are  
16 attached to this portion of my direct testimony. The Company has prepared a cost  
17 of service study (G schedules) for the Water Division only. G Schedules are  
18 omitted for the Wastewater Division. Because the Company is not proposing a  
19 change in the basic rate design for the Wastewater Division, the Company did not  
20 feel it necessary to prepare a cost of service study.

21 **Q. THANK YOU. PLEASE CONTINUE.**

22 A. In the second volume of my direct testimony, to which the D schedules are  
23 attached, I address cost of capital. Pima is requesting a return on common equity  
24 of 10.5 percent. As shown on Schedule D-1, the Company's pro forma  
25 consolidated capital structure for ratemaking purposes consists of 31.1 percent  
26



1 equity and 68.9 percent debt. The cost of debt is 7.182 percent and the weighted  
2 average cost of capital is 9.47 percent.

3 **Q. IS THE CAPITAL STRUCTURE DESCRIBED ABOVE THE ACTUAL**  
4 **CAPITAL STRUCTURE AT THE END OF THE TEST YEAR?**

5 A. No. As explained in my cost of capital testimony, the Company's actual  
6 consolidated capital structure at the end of the test year consisted of 22.5 percent  
7 debt and 77.5 percent equity. However, the Company is filing a financing  
8 application parallel with its rate application seeking authorization to issue an  
9 additional \$4 million of debt. The \$4 million of additional debt offset with a  
10 \$1.755 million principle payment of Pima's existing bonds that will be made in  
11 2011 will result in a net increase to Pima's debt of \$2.245 million from \$6.125  
12 million at the end of the test year to \$8.37 million.<sup>1</sup> This will result in a capital  
13 structure consisting of 68.9 percent debt and 31.1 percent equity, which is a more  
14 balanced capital structure.

15 **Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.**

16 A. The Company is seeking rate increases for both its water and wastewater divisions.  
17 The test year used by Pima is the 12-month period ending December 31, 2010.  
18 The Company is requesting a 9.47 percent return on its fair value rate base  
19 ("FVRB"). The Company has also proposed certain proforma adjustments to take  
20 into account known and measurable changes to rate base, expenses and revenues  
21 for each division. These proforma adjustments are consistent with normal  
22 ratemaking and are contemplated by the Commission's rules and regulations  
23 governing rate applications. See R14-2-103. These adjustments are necessary to  
24  
25

26 <sup>1</sup> See Schedule D-2 attached to the Direct Testimony of Thomas J. Bourassa (Cost of Capital).

1 obtain a normal or realistic relationship between revenues, expenses and rate base  
2 on a going-forward basis.

3 The Company's fair value rate base for the Water Division is \$9,097,529.  
4 The increase in revenues to provide for recovery of operating expenses and a 9.47  
5 percent return on rate base is approximately \$1,023,565, an increase of  
6 approximately 51.76 percent over the adjusted and annualized test year revenues.  
7 The Company's fair value rate base for the Wastewater Division is \$9,863,271.  
8 The increase in revenues to provide for recovery of operating expenses and a 9.47  
9 percent return on rate base is approximately \$691,210, an increase of  
10 approximately 22.32 percent over the adjusted and annualized test year revenues.

11 **Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS**  
12 **TIME?**

13 A. Because it is no longer earning a return on the fair value of its plant devoted to  
14 service. This is largely due to the substantial investments in plant necessary to  
15 serve customers that Pima has made since the last water rate case decision in  
16 August 1994 and wastewater rate case decision in January 2000. The cases were  
17 based on a test years ending December 31, 1992 and December 31, 1997, so  
18 various operating expenses have also increased. As a consequence, the Company's  
19 current rate of return for the Water Division and the Wastewater Division, based on  
20 the adjusted test year data, is 1.46 percent and 4.48 percent, respectively.  
21 Consequently, rate increases are necessary to ensure that Pima recovers its  
22 reasonable operating expenses and has an adequate opportunity to earn a  
23 reasonable return on the fair value of its utility plant and property devoted to public  
24 service.

1    **III.    PIMA'S WATER DIVISION**

2        **A.    Summary of A, E and F Schedules.**

3    **Q.    MR. BOURASSA, LET'S TURN TO THE COMPANY'S WATER**  
4        **DIVISION SCHEDULES.    PLEASE DESCRIBE THE SCHEDULES**  
5        **LABELED AS A, E, AND F.**

6    A.    The A-1 Schedule is a summary of the Water Division rate base, operating income,  
7        current operating margin, required operating margin, operating income deficiency,  
8        and the increase in gross revenue. A 9.47 percent return on FVRB is requested.  
9        The increase in the revenue requirement is \$1,023,565. Revenues at present and  
10       proposed and customer classifications are also shown on this schedule.

11                The A-2 Schedule is a summary of results of operations for the test year,  
12       prior years, and a projected year at present rates and proposed rates.

13                Schedule A-3 contains the Company's capital structure for the test year and  
14       the two prior years.

15                Schedule A-4 contains the plant construction and plant-in-service for the test  
16       year and prior years. The projected plant additions are also shown on this  
17       schedule.

18                Schedule A-5 is the summary of the Company's changes in financial  
19       position (cash flow) for the prior two years, the test year at present rates, and a  
20       projected year at present and proposed rates.

21                The E Schedules are based on the Company's actual operating results, as  
22       reported by the Company in annual reports filed with the Commission. The E-1  
23       Schedule contains the comparative balance sheet data for the years 2008, 2009, and  
24       2010 ended on December 31.

25                Schedule E-2, page 1, contains the income statement for the years 2008,  
26       2009, and 2010 ended on December 31.

1 Schedule E-3 contains the statements of changes in the Company's financial  
2 position for the test year and the two prior years.

3 Schedule E-4 provides the changes in membership equity.

4 Schedule E-5 contains the Company's plant-in-service at the end of the test  
5 year, and one year prior to the end of the test year.

6 Schedule E-7 contains operating statistics for the years ended 2008, 2009,  
7 and 2010 ended on December 31.

8 Schedule E-8 contains the taxes charged to operations.

9 The accountant's notes to the financial statements and the financial  
10 assumptions used in preparing the rate filing schedules are shown on Schedules E-9  
11 and F-4, respectively, in accordance with the Commission's standard filing  
12 requirements. The Company does not prepare audited financial statements.

13 Schedule F-1 contains the results of operations at the present rates (actual  
14 and adjusted), and at proposed rates.

15 Schedule F-2 contains the summary of changes in financial position (cash  
16 flow) for the prior two years, the test year at present rates, and a projected year at  
17 present and proposed rates.

18 Schedule F-3 shows the Company's projected construction requirements for  
19 2011, 2012, 2013.

20 Schedule F-4 contains the assumptions used in developing the adjustments  
21 and projections contained in the rate filing.

22 **B. Rate Base (B Schedules).**

23 **Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE**  
24 **LABELED AS THE B SCHEDULES?**

25 **A.** Yes. I will start with Schedule B-5, which is the working capital allowance. I used  
26 the "formula method" of computing the working capital allowance to reduce costs.

1 However, the Company is not requesting a working capital allowance for either  
2 division.

3 **Q. WHY DIDN'T THE COMPANY PREPARE A LEAD-LAG STUDY AND**  
4 **USE THE RESULTS OF THAT STUDY TO COMPUTE WORKING**  
5 **CAPITAL?**

6 A. Because the costs to prepare a lead-lag study outweigh the benefits. By way of  
7 illustration, in a recent case for Chaparral Water Company (Docket No. W-  
8 02113A-07-0551), the Residential Utility Consumer Office prepared a lead lag  
9 study and computed a negative \$111,000 of cash working capital. Pima's Water  
10 Division is about one quarter the size in terms of the level of expenses. So, let's  
11 assume for argument's sake that a lead-lag study would produce negative working  
12 capital of \$28,000. If the negative \$28,000 were included in rate base, the impact  
13 on the revenue requirement would be a negative \$3,708 ( $-\$28,000 \times 9.47$   
14 percent return times the tax factor of 1.4). A formal lead/lag study may not  
15 produce a negative working capital amount. Further, I would argue for the  
16 inclusion of rate case expense in prepaid expenses or alternatively using rate case  
17 expense in the computation of lead/lag days in the study. Both approaches would  
18 lead to a much less negative or even positive working capital.

19 In the meantime, the Company would have incurred \$10,000 just to have the  
20 study prepared. Plus, the Company could easily incur more than \$15,000  
21 defending its working capital calculation, all of which increases rate case expense.

22 **Q. THANK YOU. PLEASE CONTINUE.**

23 A. The Company did not file Schedules B-3 and B-4. To limit issues in dispute and  
24 reduce rate case expense, Pima is requesting that its original cost rate base  
25 ("OCRB") be used as its FVRB for its Water Division.

1 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**  
2 **THE WATER DIVISION'S ORIGINAL COST RATE BASE?**

3 A. Yes. Schedule B-2 shows adjustments to the Water Division's OCRB proposed by  
4 the Company. Schedule B-2, pages 2 through 5, provide the supporting  
5 information. These adjustments are, in summary:

6 B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-  
7 in-service. There are a number of plant-in-service adjustments included in  
8 Adjustment 1. These are shown on Schedule B-2, page 3, and are labeled as  
9 adjustments "A," "B," "C," "D," and "E."

10 Adjustment A of B-2 adjustment number 1 adjusts plant-in-service to reflect  
11 the reclassification of plant from the Water Division to the Wastewater Division.  
12 In short, the reclassified plant is related to effluent recharge facilities and  
13 equipment which more properly belongs with the Wastewater Division. This  
14 reclassification of plant is discussed in more detail in the Direct Testimony of Ray  
15 Jones.<sup>2</sup>

16 Adjustment B of B-2 adjustment number 1 adjusts plant-in-service to reflect  
17 the reclassification of plant from the Wastewater Division to the Water Division.  
18 This reclassification of plant is also discussed in more detail in Mr. Jones' direct.<sup>3</sup>

19 Adjustment C of B-2 adjustment number 1 adjusts plant-in-service to reflect  
20 retirements that were not recorded as of the end of the test year. The proposed  
21 plant retirements are discussed in more detail in Mr. Jones' direct.<sup>4</sup>

22  
23  
24  
25 <sup>2</sup> See the Direct Testimony of Ray Jones ("Jones Dt.") at 9.

26 <sup>3</sup> *Id.*

<sup>4</sup> *Id.* at 11:4-8.

1 Adjustment D of B-2 adjustment number 1 adjusts plant-in-service to reflect  
2 a conforming adjustment to the Water Division's prior rate case plant-in-service  
3 balance. This adjustment is also discussed in more detail in Mr. Jones' direct.<sup>5</sup>

4 Adjustment E of B-2 adjustment number 1 reclassifies plant-in-service to  
5 the proper plant-in-service accounts. The net adjustment to plant-in-service is zero.  
6 This adjustment is discussed in more detail in the Mr. Jones' direct.<sup>6</sup>

7 **Q. PLEASE CONTINUE.**

8 A. Adjustment B-2 shown on Schedule B-2, page 2, adjusts accumulated depreciation.  
9 The details of the accumulated depreciation adjustment are shown a Schedule B-2,  
10 page 4. There are two plant-in-service adjustments included in Adjustment 2.  
11 These are shown on Schedule B-2, page 4, and are labeled as adjustments "A" and  
12 "B."

13 Adjustment A of B-2 adjustment number 2 adjusts accumulated depreciation  
14 for the proposed retirements shown in Adjustment C of B-2 adjustment number 1.

15 Adjustment B of B-2 adjustment number 2 adjusts accumulated depreciation  
16 reflects the re-computed amounts of accumulated depreciation per the Company's  
17 B-2 plant schedule.

18 **Q. DO THE PLANT IN SERVICE AND ACCUMULATED DEPRECIATION**  
19 **BALANCES SHOWN ON B-2 REFLECT THE LAST COMMISSION RATE**  
20 **ORDER?**

21 A. Yes. The construction of the plant and accumulated depreciation balances is  
22 discussed in the Direct Testimony of Ray Jones.<sup>7</sup>

23  
24  
25 <sup>5</sup> *Id.* at 10:4-5.

26 <sup>6</sup> *See id.* at 8:17 - 9:3.

<sup>7</sup> *Id.* at 10:1-19.

1 **Q. PLEASE CONTINUE.**

2 A. Adjustment B-2 shown on Schedule B-2, page 5, adjusts the accumulated  
3 amortization balance of CIAC to the recomputed amount reflecting the annual  
4 composite depreciation rate for plant-in-service.

5 **Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON**  
6 **A-1 DETERMINED?**

7 A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no  
8 adjustment for the current values of the Company's plant and property.

9 **C. Income Statement (C Schedules)**

10 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO**  
11 **THE WATER DIVISION INCOME STATEMENT AS SHOWN ON**  
12 **SCHEDULES C-1 AND C-2.**

13 A. The following is a summary of adjustments shown on Schedule C-1:

14 Adjustment 1 annualizes depreciation expense. The proposed depreciation  
15 rate for each component of utility plant is shown on Schedule C-2, page 2. The  
16 depreciation rate approved in the Water Division's last rate case was a 3.0%  
17 composite rate. The Company proposes to use account specific rates on a going  
18 forward basis.

19 Adjustment 2 increases the property taxes based on proposed revenues. The  
20 details of the computation are shown on Schedule C-2, page 3.

21 **Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT THE CURRENT**  
22 **AND PROPOSED RATES?**

23 A. I employed a modified version of the Arizona Department of Revenue - Centrally  
24 Valued Properties ("ADOR" or "the Department") method for determining  
25 property taxes. The ADOR method uses twice the average of the prior three years  
26 of historical revenue plus an addition for CWIP and a deduction for the book value



1 of transportation equipment in the determination of the full cash value. The  
2 modified method determines full cash value by using twice the adjusted test year  
3 revenues rather than the prior three years of historical revenue. For determining  
4 the property tax expense at proposed revenues I used two times the three year  
5 average consisting of two years of adjusted test year revenues plus one year of  
6 proposed revenues. The change to property taxes at proposed revenues is reflected  
7 in the gross revenue conversion factor shown on the A-1 Schedule. For both of the  
8 computations of property tax expense I used an assessed value equal to 20 percent  
9 of full cash value (the current assessment rate) which was then multiplied by the  
10 property tax rate to determine the property tax expense.

11 **Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?**

12 A. Yes, more than I can count. See, *e.g.*, *Chaparral City Water Company*, Decision  
13 No. 68176 (September 30, 2005) at 13; *Rio Rico Utilities, Inc.*, Decision No. 67279  
14 (January 6, 2011) at 8; *Arizona Water Company*, Decision No. 64282 (December  
15 28, 2001) at 12 – 13; *Bella Vista Water Co., Inc.*, Decision No. 65350 (November  
16 1, 2002) at 16; *Arizona-American Water Company, Inc.*, Decision No. 67093 (June  
17 30, 2004) at 9 – 10; *Black Mountain Sewer Corporation*, Decision 69164  
18 (December 5, 2006) at 10 – 11.

19 **Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH**  
20 **REVENUES PROPER RATE MAKING?**

21 A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new  
22 rates are sufficient to produce the revenue requirement. For this reason, the  
23 Commission has repeatedly approved the use of proposed revenues to determine an  
24 appropriate level of property tax expense to be recovered through rates. This has  
25 been accomplished by either reflecting the change to property taxes from the  
26 increase in revenues in the revenue gross-up factor, or by adjusting the test year

1 property tax expense to reflect the revenues at proposed rates and not reflecting the  
2 change in the revenue gross-up factor. In more recent years, the Utilities Division  
3 Staff ("Staff") has adopted the former method. To be consistent with Staff's  
4 approach in more recent rate cases, I have reflected the change in property taxes  
5 from the increase in revenues in the revenue gross-up factor.<sup>8</sup>

6 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME**  
7 **STATEMENT ADJUSTMENTS.**

8 A. Adjustment 3 shows the rate case expense estimated by the Company. The  
9 Company estimates rate case expense for the Water Division of \$200,000, which is  
10 half of the total amount requested. The Company proposes that rate case expense  
11 be recovered over four years because it believes a four-year cycle for future rate  
12 cases is reasonable given this utility's circumstances. While the Company's last  
13 rate case was eighteen years ago, the Company intends to file cases on a more  
14 regular basis.

15 **Q. WHY DO YOU BELIEVE THIS IS A REASONABLE ESTIMATE OF**  
16 **RATE CASE EXPENSE FOR THIS RATE CASE?**

17 A. Because it is based on what I have seen in other rate cases. The best recent  
18 example I know is Chaparral City Water Company. The Commission granted rate  
19 case expense of \$280,000 in that case. Chaparral City Water Company is about  
20 2000 customers larger than either of Pima's divisions. So, I took that number and  
21 multiplied it by 1.5, on the assumption that we would achieve about 50 percent  
22 economies of scale in total for the whole case (both divisions). Thus, each division  
23 is allocated \$200,000 of rate case expense. I believe these amounts are also  
24 consistent with other water company cases like *Arizona Water Company-Western*  
25

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26 <sup>8</sup> See Schedule C-3, page 2.

1        *Group*, Decision No. 68302 (November 14, 2005) and *Chaparral City Water*  
2        *Company*, Decision No. 71308 (October 21, 2009), in which the utilities were  
3        awarded \$250,000 and \$280,000, respectively. Another recent example that is  
4        relevant is the recent rate case for Litchfield Park Service Company ("LPSCo"),  
5        (Decision 72026, December 10, 2010) in which both water and wastewater division  
6        rate applications were filed simultaneously. LPSCo incurred over \$500,000 and  
7        was granted \$420,000 of rate case expense. While LPSCo is a somewhat larger  
8        utility and the issues between the parties may not be the same, in my view the level  
9        of outside resources required to prepare the rate case and defend the Company  
10       during the course of this proceeding are similar. These cases, among the many  
11       others I have worked on, formed the basis for my estimate.

12       **Q. PLEASE EXPLAIN WHY YOU REFER TO THIS AMOUNT AS AN**  
13       **"ESTIMATE."**

14       A. Because I can't see the future, I can only make some guesses based on my  
15       experience. The specifics of who may intervene, what unique issues may come  
16       into dispute, what kind of procedural problems we will encounter, etc. I cannot  
17       predict. I know what we have done to prepare the direct filing and I know that rate  
18       cases are lengthy and expensive, but I still have to start with an estimate. If things  
19       turn out more complicated than anticipated, the Company will modify its request to  
20       account for that increased expense. Conversely, if the case proceeds and rate case  
21       expense is lower than expected, we would make an appropriate adjustment  
22       downward.

23       **Q. SHOULDN'T THE COMPANY'S SHAREHOLDERS BEAR SOME OF THE**  
24       **BURDEN OF RATE CASE EXPENSE?**

25       A. As a practical matter, the utility always does. My estimate of \$400,000 (\$200,000  
26       for each division) assumes Pima will actually incur more than \$400,000 of rate

1 case expense in this case. I suspect the actual amount will be well over half a  
2 million dollars before it is done. Whether those additional amounts should be  
3 sought for recovery is hard to say. I would agree that if the utility does something  
4 improper, or advances positions in bad-faith, it should shoulder the burden of such  
5 actions. But, as I testified, the Commission dictates the process, not the utility, and  
6 absent such circumstances, the utility must be allowed to recover its reasonably  
7 incurred rate case expense as a cost of service.

8 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME**  
9 **STATEMENT ADJUSTMENTS.**

10 A. Adjustment 4 annualizes revenues to the year-end number of customers. The  
11 annualization of revenues is based on the number of customers at the end of the test  
12 year, compared to the actual number of customers during each month of the test  
13 year. Average revenues per customer by month were computed for the test year  
14 and then multiplied by the increase (or decrease) in number of customers for each  
15 month of the test year. The total of the monthly revenue change comprise the  
16 revenue annualization. This was done for each customer class.

17 Adjustment 5 increases purchased power reflecting the offset of a one-time  
18 rebate credit from the Ocotillo Water Conservation District, as well as removes  
19 power costs associated with recharge wells that the Company proposes to include  
20 in the Wastewater Division's plant.

21 Adjustment 6 annualizes purchased power expense based on the additional  
22 gallons sold from annualizing revenues to the year-end number of customers in  
23 Adjustment 4, above. This adjustment is intended to match the additional expense  
24 associated with the revenue annualization.

25 Adjustment 7 is intentionally left blank.  
26

Adjustment 8 adjusts interest expense to reflect interest synchronization with rate base.

Adjustment 9 reflects income taxes based upon the Company adjusted test year revenue and expense. The Company is proposing income taxes in the cost of service even though Pima is a Subchapter S Corporation ("S-Corp") and does not pay income taxes itself.

**Q. WAIT A MINUTE PLEASE MR. BOURASSA, BUT IF PIMA DOES NOT PAY THE TAXES WHY SHOULD THEY RECOVER THEM THROUGH RATES?**

A. The reason is actually simple. The taxable income attributed to Pima is passed through to its shareholders who must pay the income tax. Had the utility service not been provided and the revenue earned, the taxes would not have been incurred. In other words, this income tax attributed to this "first tier" income is a necessary and inescapable cost of providing service to customers.

The situation is analogous to a subsidiary Subchapter C Corporation ("C-Corp") utility of a parent holding company whose tax return is consolidated with the parent. The individual C-Corp utility does not file a separate tax return, yet this Commission has traditionally allowed income taxes to be computed on a stand-alone basis and included as a cost of service of the utility.

**Q. IS OPERATING INCOME FOR A UTILITY WHOSE LEGAL STATUS IS THAT OF A C-CORP DETERMINED BY CONSIDERING THE IMPACT OF INCOME TAXES?**

A. Yes. The rate of return that is applied to rate base to determine the required operating income is an after-tax return. Pass-through entities like S-Corps should be afforded the same treatment as C-Corps. Otherwise, for example, a 10 percent authorized return to an S-Corp does not have the same meaning nor does it provide

1 the same effective return as a 10 percent return to a C-Corp - one is before tax and  
2 the other is after tax.

3 Rate making should be applied in a manner which produces reasonable and  
4 realistic results no matter what the legal form of the utility is. Inclusion or  
5 exclusion of income taxes should not be limited to a technical distinction. Rather it  
6 should be based on whether it is fairly recovered as a cost of service without  
7 discrimination. The income taxes required to be paid by shareholders on a utility's  
8 income are inescapable business outlays that are directly attributable to the utility  
9 and are directly comparable with similar taxes paid by C-Corps. Otherwise  
10 ratepayers receive an unjustified windfall and, concurrently, shareholder  
11 investment value is diminished from the lower revenue requirement and operating  
12 income when income taxes are excluded.

13 **Q. DOESN'T THE FEDERAL ENERGY REGULATORY COMMISSION**  
14 **HAVE A POLICY OF INCLUDING AN INCOME TAX ALLOWANCE**  
15 **FOR TAX PASS-THROUGH ENTITIES?**

16 A. Yes. The Federal Energy Regulatory Commission ("FERC") has an established  
17 policy of including an income tax allowance for tax pass through entities.<sup>9</sup> I have  
18 included a copy of the *Policy Statement on Income Tax Allowances* ("Policy  
19 *Statement*") as **Exhibit TJB-RB-DT1**. The *Policy Statement* provides an in-depth  
20 discussion of the rationale for including an income tax allowance for tax pass-  
21 through entities not dissimilar to the rationale discussed previously.

22  
23  
24  
25  
26 <sup>9</sup> See Federal Energy Regulatory Commission, 111 FERC 61,139, Docket PL05-5-000.

1 Q. PLEASE EXPLAIN THE FERC METHODOLOGY FOR THE  
2 DETERMINATION OF THE INCOME TAX ALLOWANCE FOR TAX  
3 PASS-THROUGH UTILITIES.

4 A. The basic FERC methodology is summarized as follows:

- 5 1. Drill down through all stockholders until a taxable or nontaxable  
6 entity is reached.
- 7 2. Establish a marginal tax rate for each taxable entity (FERC typically  
8 uses presumptive rates of 28% for all individual taxpayers and 35%  
9 for taxable entities).
- 10 3. Calculate a weighted average tax rate for the combined ownership.
- 11 4. Use weighted average tax rate for calculating income tax allowance.

12 Q. HAVE YOU FOLLOWED THE FERC METHODOLOGY IN THE  
13 INSTANT CASE?

14 A. Yes, with some modifications in order to make the computed effective income tax  
15 rate and the income tax allowance more conservative. Instead of using the FERC  
16 presumptive marginal tax rates of 28 percent for individuals and 35 percent for  
17 taxable entities, I computed the actual effective tax rates for individuals and entities  
18 based upon their proportionate share of income at proposed revenues using the  
19 applicable federal and state tax rates. The computed individual effective tax rates  
20 (federal and state) range from a low of about 12.8 percent to a high of about 32  
21 percent. The average of these rates is about 18.2 percent; far lower than the 28  
22 percent FERC presumptively employs. The taxable entity effective tax rates range  
23 from a low of about 15 percent to a high of about 18 percent. The average of these  
24 rates is about 16.6 percent; far lower than the 35 percent FERC presumptively  
25 employs.

1 In the instant case, as a result of using the modified approach described  
2 above, the effective federal tax rate is about 24.5 percent. Compare this rate to an  
3 effective federal tax rate of about 29 percent when a 28 percent and 35 percent rate  
4 is used for individuals and taxpaying entities, respectively. Clearly, the modified  
5 approach employed in the instant case is more conservative.

6 **Q. HOW DOES THE COMPUTED OVERALL EFFECTIVE TAX RATE**  
7 **COMPARE TO A COMPARABLE C-CORP?**

8 A. The computed overall effective tax rate (federal and state) at proposed revenues is  
9 approximately 27.8 percent, whereas the effective tax rate for a comparable C-Corp  
10 would be approximately 41.5 percent.

11 **D. Rate Design (H Schedules).**

12 **Q. WHAT ARE THE COMPANY'S PRESENT RATES FOR WATER**  
13 **SERVICE?**

14 A. The Company's present rates are:

15 **MONTHLY SERVICE CHARGES**

16	5/8" x 3/4" Meter	\$ 5.70
17	3/4" Meter	\$ 5.70
18	1" Meter	\$ 16.00
19	1 1/2" Meter	\$ 21.00
20	2" Meter	\$ 26.00
21	3" Meter	\$ 40.00
22	4" Meter	\$ 52.00
23	6" Meter	\$100.00
24	Irrigation	\$180.00
25	Gallons in minimum (all classes, except irrigation)	1,000
26	Gallons in minimum (irrigation)	100,000



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COMMODITY RATES

All Metered Usage, except irrigation		
1 Gallon to 10,000 gallons - Per 1,000 gallons		\$0.92
Over 10,000 Gallons		\$1.08
Irrigation		
All gallons over minimum		\$0.36

**Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER SERVICE?**

**A.** The Company's proposed rates are:

MONTHLY SERVICE CHARGES

5/8" x 3/4" Meter	\$ 7.36
3/4" Meter	\$ 7.36
1" Meter	\$ 20.67
1 1/2" Meter	\$ 27.13
2" Meter	\$ 33.59
3" Meter	\$ 51.68
4" Meter	\$ 67.18
6" Meter	\$129.20
Irrigation	\$232.56
Gallons in minimum (all classes, except irrigation)	0
Gallons in minimum (irrigation)	0

COMMODITY RATES

5/8"X3/4" Meter – Res.	1 to 4,000	\$ 0.96
	4,001 to 10,000	\$ 1.36
	Over 10,000	\$ 1.86

1	5/8"X3/4" Meter – Com.	1 to 10,000	\$ 1.36
2		Over 10,000	\$ 1.86
3	3/4" Meter – Res.	1 to 4,000	\$ 0.96
4		4,001 to 10,000	\$ 1.36
5		Over 10,000	\$ 1.86
6	3/4" Meter – Com.	1 to 10,000	\$ 0.96
7		Over 10,000	\$ 1.36
8	1" Meter – Res., Com.	1 to 25,000	\$ 1.36
9		Over 25,000	\$ 1.86
10	1 1/2" Meter – Res., Com.	1 to 50,000	\$ 1.36
11		Over 50,000	\$ 1.86
12	2" Meter – Res., Com.	1 to 80,000	\$ 1.36
13		Over 80,000	\$ 1.86
14	3" Meter – Res., Com.	1 to 160,000	\$ 1.36
15		Over 160,000	\$ 1.86
16	4" Meter – Res., Com.	1 to 250,000	\$ 1.36
17		Over 250,000	\$ 1.86
18	6" Meter – Res., Com.	1 to 500,000	\$ 1.36
19		Over 500,000	\$ 1.86
20	Irrigation – all meter sizes	All gallons	\$ 0.70

21

22 **Q. WHAT METER SIZE ARE THE MAJORITY OF CUSTOMERS ON AND**  
 23 **WHAT WAS THE AVERAGE MONTHLY BILL DURING THE TEST**  
 24 **YEAR?**

25 **A.** The largest customer class is the 5/8x3/4 inch residential class. The next largest  
 26 customer class is the 1 inch residential class. As shown on Schedule H-2, page 1,

1 the average monthly bill under present rates for a 5/8x3/4 inch residential customer  
2 using an average 6,395 gallons is \$10.66. The average monthly bill under present  
3 rates for a 1-inch residential customer using an average 28,258 gallons is \$44.00.

4 **Q. WHAT WILL BE THE AVERAGE 5/8X3/4 INCH RESIDENTIAL AND 1**  
5 **INCH RESIDENTIAL CUSTOMER AVERAGE MONTHLY BILL UNDER**  
6 **THE NEW RATES?**

7 A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates  
8 for a 5/8x3/4 inch residential customer using an average 6,395 gallons is \$14.49 – a  
9 \$3.83 increase over the present monthly bill or a 35.91 percent increase. The  
10 average monthly bill under proposed rates for 1-inch residential customer using an  
11 average 28,258 gallons is \$60.87 – a \$16.87 increase over the present monthly bill  
12 or a 38.34 percent increase.

13 **Q. IS THE COMPANY'S RATE DESIGN A CONSERVATION ORIENTED**  
14 **RATE DESIGN?**

15 A. Yes. Inverted tier rate designs are conservation oriented. The smaller residential  
16 meters (5/8"x3/4" and 3/4") are on an inverted three tier rate design and all other  
17 meter sizes are on an inverted two tier design. As I will discuss in the next section,  
18 conservation oriented rate designs are not cost based rate designs. However, as I  
19 will discuss later in my cost of service study, the Company's proposed design does  
20 provide for less subsidization of the 5/8x3/4 inch metered class by the larger meter  
21 sizes. It also provides somewhat less revenue stability than the current rate design  
22 in that it provides for about 33 percent of the revenue requirement from monthly  
23 minimums whereas under present rates about 39 percent of revenues are derived  
24 from the monthly minimums. Generally, the portion of revenue derived from the  
25 monthly minimums should be in the range of 40 to 50 percent and ideally closer to  
26 50 percent.

1 **Q. PLEASE DESCRIBE THE CUSTOMER TYPES WHICH COMPRISE THE**  
2 **IRRIGATION CLASS.**

3 A. The irrigation customers are the three homeowner associations ("HOAs") in Sun  
4 Lakes. Each association uses irrigation water for landscaping, lakes and golf  
5 courses.

6 **Q. IS THE COMPANY PROPOSING AN INVERTED TIER RATE DESIGN**  
7 **FOR THE IRRIGATION CLASS?**

8 A. No. The Company proposes to continue with the current rate design for the  
9 irrigation class, which is characterized by a relatively high monthly minimum and  
10 single tier commodity rate. The Company does propose to eliminate the 100,000  
11 gallons included in the monthly minimum under present rates. This design is  
12 similar to the rate design for effluent sales of the Wastewater Division.

13 **Q. WHY IS THE COMPANY PROPOSING TO KEEP THE CURRENT RATE**  
14 **DESIGN?**

15 A. A rate design that would be typically used for the irrigation class would have a  
16 substantially greater commodity rate<sup>10</sup> and this would have an adverse impact on  
17 the HOAs. The Company is concerned that the impact of setting the irrigation  
18 commodity rate at either the second or third tier commodity rates of the other  
19 customer classes will result in rate increases of 200 to 300 percent to the HOAs.  
20 The increase to the HOAs would provide little benefit to Pima's other customers,  
21 since they are the ones ultimately funding the HOAs. Even though the proposed  
22 irrigation commodity rate is less than the first tier commodity rate of the small  
23 metered customers the irrigation class will see the highest rate increase of all the  
24 customer classes. Under the Company's proposed rate design the irrigation class

25  
26 <sup>10</sup> For example, Chaparral City Water Company's irrigation commodity rate is equal to the second tier  
commodity rate. LPSCO's irrigation rate is equal to the third tier commodity rate.

1 will see nearly a 94 percent increase at the average usage. By comparison, the  
2 largest customer class is the 5/8x3/4 inch residential and will see about a 36 percent  
3 increase at the average usage.

4 **1. Other Tariff Changes.**

5 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO MISCELLANEOUS**  
6 **SERVICE CHARGES FOR THE WATER DIVISION?**

7 A. Yes. The Company is proposing an establishment fee, reestablishment fee (within  
8 12 months), reconnection fee (delinquent), and an after-hours service charge.

9 **2. Cost of Service Study (G Schedules).**

10 **Q. WHAT IS A COST OF SERVICE STUDY?**

11 A. A cost of service study is an analysis of the adequacy of water revenues and  
12 revenue requirements to be met by the various classes of customers under both  
13 existing and proposed rates. The study begins with an allocation of utility plant  
14 and expenses into cost and asset functions which are then allocated to customer  
15 classifications. The study attempts to trace the costs resulting from meeting the  
16 customers' service requirements. Ideally, the revenues received from each  
17 customer class should equal the cost of providing service to that customer class.  
18 The cost to provide service includes the operating and maintenance expenses and  
19 the capital costs. Operating and maintenance expenses include the costs of  
20 operating the system and the costs of maintaining system facilities and equipment.  
21 Capital costs include investment-related cash requirements such as debt service,  
22 contributions to debt service reserves, and capital requirements not financed by  
23 debt. Capital costs also include depreciation expense and either a return on rate  
24 base (for-profit utilities) or an operating margin (non-profit utilities) as well as  
25 incomes taxes and other taxes, if applicable.  
26

1 **Q. WHAT IS THE PURPOSE OF A COST OF SERVICE STUDY?**

2 A. Typically, the purpose of preparing a cost of service study is to offer guidance in  
3 setting rates to be charged for utility service. The basic premise in establishing  
4 rates for the various classes of customers that are both adequate and equitable is  
5 that rates should reflect the cost of providing utility service. Generally, regulators  
6 should set rates based on the cost of service. Put simply, this assures that the cost  
7 of providing service is allocated equitably among customers and customer classes.  
8 Cost-based rates also send an appropriate price signal to customers because the  
9 amount paid for service approximates the cost to provide the service. In other  
10 words, subsidies between customers are minimized.

11 There are many factors at play when rates are set, which may result in rates  
12 that are not adequate and/or equitable between the various classes of customers.  
13 ~~Non-economic factors may be at play when rates are set. For example, the~~  
14 ~~regulatory body may favor subsidizing one class of customer by shifting costs to~~  
15 ~~other classes of customers, or shifting revenues within one class of customer to~~  
16 ~~subsidize members within that class. Lifeline or discounted rates, which are~~  
17 ~~sometimes used to assist low-income customers in areas with high utility costs, are~~  
18 ~~prime examples of subsidization of a class of customers by other customers. If~~  
19 ~~possible, Lifeline or discounted rates should not apply to a whole customer class.~~  
20 ~~If Lifeline or discounted rates are needed, they should be offered only to customers~~  
21 ~~meeting some income test.~~

22 Another example is rate designs intended to encourage conservation.  
23 Conservation-based rates deviate from cost-of-service principles because larger  
24 water users pay more than their cost of service. Inverted-tier rates shift revenue  
25 recovery into the upper rate blocks in order to send a price signal to customers,  
26 regardless of the cost to serve those customers. This may be a desirable social

1 policy, but these rates may also be regarded as unfair and discriminatory by larger  
2 water users on economic grounds.

3 Thus, public policy may have a significant impact on rate design. The  
4 Commission should consider the impact that these sorts of alternative rate designs  
5 have on other customers, and the degree that such approaches deviate from cost-  
6 based rates, which may result in inequities and, in extreme cases, cause customers  
7 to develop alternatives to service from the utility provider. In the end, the goal is  
8 for the Company to recover its revenue requirement.

9 **Q. HOW IS YOUR COST OF SERVICE STUDY ORGANIZED?**

10 A. The standard filing requirements call for Schedules G-1 through G-7. I have also  
11 included Schedules G-8, G-9, and G-10. These schedules show cost based rate  
12 designs, which I will explain later in my testimony.

13 G Schedules with higher numbers, i.e., 5, 6 and 7, contain the allocation  
14 factors and actual allocations to functions. These functions are then carried  
15 forward to the summary G schedules 1, 2, 3 and 4, which allocate expenses and  
16 plant (by function) to classes of customers (by meter size).

17 I will start my analysis using Schedule G-7 and end with Schedules G-2 and  
18 G-1. I will then describe Schedules G-8 and G-9.

19 **Q. BEFORE YOU PROCEED, WHAT IS A "FUNCTION?"**

20 A. Functions refer to the plant and the expenses needed to get the water (the  
21 commodity) from the source (well or surface water) to the customer. The functions  
22 are commodity, demand, customer, meter, and service.

23 Commodity refers to the actual volume of water delivered. The commodity  
24 function is used to derive the commodity rate or the rate charged per unit of  
25 measurement, i.e., 1,000 gallons of water. Demand refers to how the water system  
26 is sized to deliver the water, which is normally determined by total customers and

1 fire flow requirements. Hence, the system is built to be able to deliver water (the  
2 commodity) to customers, as well as the demand placed on the water system when  
3 water is used to contain or fight a fire.

4 Customer, service, and meter functions are also used to develop the monthly  
5 minimum charged to each class of customer. The full cost of the demand function  
6 should also be included in the monthly minimum charge. However, the practice of  
7 Staff has been to allocate a portion of the demand function to both the commodity  
8 rate and the monthly minimum charge, and this has generally been adopted by the  
9 Commission in my experience.

10 Demand, customer, service and meter functions refer to the delivery of the  
11 water from the Company's wells, surface sources or reservoirs through the  
12 transmission and distribution mains to the individual customer's premises. The  
13 ~~costs associated with demand, customer, service and meter functions are incurred~~  
14 whether the customer uses 1,000 gallons or 1,000,000 gallons of water each month.

15 Fire protection assets (e.g., hydrants) and expenses associated with fire  
16 protection, including depreciation, should be allocated to the customer function  
17 because fire protection generally benefits all customers on the system. This has  
18 been the Commission's policy with regard to fire protection costs.

19 **Q. WHAT TYPE OF COST OF SERVICE STUDY DID YOU PREPARE TO**  
20 **SUPPORT THE PROPOSED RATES?**

21 A. I used the Commodity / Demand Method for the cost of service study. This  
22 method normally separates expenses and assets into three primary functions or  
23 components: commodity; demand; and customer (with further breakdown of  
24 customer costs and plant into meter and service line).

25 Commodity costs are costs that tend to vary (change) with the production or output  
26 of water. These costs would consist primarily of power costs, chemicals, water



1 treatment, purchased water, and other variable expenses. Please note that I  
2 included a portion of the demand function into the commodity function to adhere to  
3 Commission Staff's past practices.

4 Demand costs are capital and maintenance costs of facilities related to meeting the  
5 peak demand or peak usage requirements. The plant assets which cause the bulk of  
6 the demand cost are transmission and distribution mains.

7 Customer costs are those costs related to serving and/or having customers, without  
8 regard to the amount of water used. These costs would include meter reading,  
9 billing, customer accounting and collection, and the capital costs and maintenance  
10 costs related to the meters, services, and customer equipment such as meters,  
11 service lines, computers, office furniture, transportation equipment, etc.

12 **Q. AFTER COSTS ARE ALLOCATED TO FUNCTIONS, HOW ARE**  
13 **EXPENSES AND ASSETS THEN ALLOCATED TO THE INDIVIDUAL**  
14 **CLASSES OF CUSTOMERS?**

15 A. After the expenses and assets are allocated to the commodity, demand, customer,  
16 service, and meter functions, the values for the functions were then allocated to  
17 various customer classes. Customer classes are based on meter sizes on the  
18 system.

19 **Q. DOES A COST OF SERVICE STUDY PROVIDE DATA TO DETERMINE**  
20 **HOW THE TIERED RATE DESIGN SHOULD BE SET?**

21 A. No. The cost of service study will provide the cost of the commodity, but it will  
22 not provide data on where rate tiers should be set. The tiers rates can be based on  
23 studying the usage by the customers.

1 Q. WOULD YOU PLEASE DESCRIBE AND EXPLAIN THE SCHEDULES  
2 THAT COMPRISE YOUR COST OF SERVICE STUDY, AND WOULD  
3 YOU DESCRIBE HOW THE VARIOUS FUNCTIONS WERE  
4 DEVELOPED?

5 A. The allocations for the development of the class allocation factors are shown on  
6 Schedule G-7, pages 1 through 3.

7 The commodity allocation is based on the number of gallons of water used  
8 by customers on various sizes of meters, plus the gallons from the revenue  
9 annualization to year-end number of customers, divided by the total gallons of  
10 water sold (including gallons from the revenue annualization) during the test year.  
11 Thus, if 80,000,000 gallons of water were sold through the 5/8 inch meters, out of a  
12 total of 100,000,000 gallons of water sold by the water utility, this meter size  
13 would be allocated 80% of the commodity cost.

14 The demand allocation factor consists of the number of meters for each size  
15 of meter on the system, multiplied by the equivalent weight of each size of meter.  
16 The equivalent weight is determined by the flow capacity of each meter. A 5/8  
17 inch meter can flow 20 gallons per minute, while a 6 inch meter can flow 1,000  
18 gallons per minute. Thus, one 6 inch meter is equivalent to approximately fifty 5/8  
19 inch meters. The larger meters are restated into equivalent 5/8 meters to derive a  
20 monthly meter charge for the 5/8 inch meter. Then based on flow capacity,  
21 monthly minimums are developed for larger meters.

22 The customer allocation factor is the number of customers on each size  
23 meter. The allocation is based on total meters, not equivalent meters. It costs no  
24 more to read a 6 inch meter than a 5/8 inch meter, and it costs the same to issue a  
25 bill.  
26

1 I computed the meter allocation factor by multiplying the number of meters  
2 times the most recent cost of installing a meter.<sup>11</sup> The dollar weighted value of  
3 meters is then divided by the total computed meter cost to derive the meter  
4 allocation factor to each class of customer.

5 The service line allocations were computed in the same manner as the  
6 meters. That is, I used the values listed on the Staff memorandum to derive a total  
7 value of the service lines. The allocation to each service line size was the result of  
8 dividing the dollar value of the service lines for each customer class by the total  
9 dollar value of the service lines.

10 Schedule G-7, page 2.1 lists the allocation factors for repairs and  
11 maintenance expense, contractual services, purchased power, purchased water,  
12 transportation, chemicals, water testing, and salaries and wages. Allocation factors  
13 for these expenses were determined by examining the causal relationships of each  
14 expense to the various functions, which may include an examination of the  
15 recorded amounts during the test year and the use of professional judgment.

16 The depreciation expense allocations shown on Schedule G-6, page 2, apply  
17 the allocation factors shown on Schedule G-7, page 2, times the depreciation  
18 expense for each plant asset. For the demand function for Wells, Mains, Water  
19 Treatment Equipment, and Pumping Equipment, I assumed an allocation factor of  
20 90 percent. Ten percent of plant values and related depreciation expense for Wells,  
21 Mains, Water Treatment Equipment, and Pumping Equipment was allocated to the  
22 commodity function.

23 The depreciation expense was computed with the Company's depreciation  
24 rates.

25  
26 <sup>11</sup> Costs were used from the Commission Staff Engineering memorandum originated by Marlin Scott, Jr.,  
dated February 21, 2008.

1           The operation and maintenance expense allocation to functions (commodity,  
2 demand, customer, service, and meter) are shown on Schedule G-6, page 1.

3           On Schedule G-5, page 2, I allocated net plant rather than gross plant, via  
4 deducting the accumulated depreciation from each plant asset.

5           I deducted AIAC and CIAC from the plant balances normally financed with  
6 AIAC and CIAC, which would be primarily transmission and distribution mains. I  
7 allocated the AIAC and CIAC to both the demand and commodity functions to be  
8 consistent with my allocation of the transmission and distribution mains. The  
9 allocations are shown on Schedule G-5, page 2.

10          Then I computed rate bases for each function (commodity, demand,  
11 customer, service and meter). The rate bases by function are shown on Schedule  
12 G-5, page 1.

13          Schedule G-4 allocates the commodity, demand, customer, service and  
14 meter expenses to meter sizes using the allocation factors developed on Schedule  
15 G-7, page 3.

16          Schedule G-3 allocates the rate bases for commodity, demand, customer,  
17 service, and meter to customer classes, which are meter sizes.

18          Schedules G-1 and G-2 derive the return on rate base by customer classes  
19 (meter sizes) at present and proposed rates, respectively. The returns on rate base  
20 are computed by dividing the operating income for each meter size by the rate base  
21 for that meter size.

22          Property taxes are allocated based on revenue, as this revenue is the main  
23 factor in the method used by ADOR to determine the full cash value of the utility.

24          Income Taxes are allocated based on taxable income on Schedules G-1  
25 and G-2.

1 **Q. DID YOU PREPARE SCHEDULES SHOWING RATE DESIGNS BASED**  
2 **ON THE COST OF SERVICE STUDY?**

3 A. Yes. Cost based monthly minimums and commodity rates are shown on Schedule  
4 G-8.

5 **Q. WOULD YOU PLEASE DISCUSS SCHEDULE G-8?**

6 A. Schedule G-8 computes the cost based monthly minimums for each meter size and  
7 the commodity rates. On Schedule G-8, in the monthly minimums for each size  
8 meter, I have included the demand related expenses and capital costs. The  
9 computed monthly minimum gives guidance on the rates that should be charged  
10 regardless of customer water usage. The proposed rates in the instant case as to  
11 monthly minimum charges on the H-3 schedule are noticeably below what the  
12 computed monthly minimums shown on Schedule G-8, page 3.

13 The computed commodity rate is substantially below the proposed  
14 commodity rates on the H-3 schedule under both present and proposed rates. The  
15 disparity (computed cost vs. proposed rates) continues as you compare the  
16 proposed rates using tier two or three tier rates.

17 **Q. WHAT IS THE MONTHLY MINIMUM FOR A CUSTOMER ON A 5/8X3/4**  
18 **INCH METER THAT YOU COMPUTED IN YOUR COST OF SERVICE**  
19 **STUDY?**

20 A. The monthly minimum, with no water in that minimum, should be \$18.40 when  
21 you include the allocations for expenses and plant for the function of demand,  
22 customer, meter and service line.

23

24

25

26

1 **Q. HOW DOES THE COMPUTED MONTHLY MINIMUM CHARGE**  
2 **COMPARE TO THE COMPANY'S PROPOSED MONTHLY MINIMUM?**

3 A. The proposed monthly minimum for a 5/8x3/4 inch meter is \$7.36, or  
4 approximately 40 percent of the computed monthly minimum of \$18.40 as shown  
5 on Schedule G-8, page 3. Thus, the proposed monthly minimum is about \$11  
6 below the actual cost for the monthly minimum.

7 **Q. WHAT IS THE COMPUTED COMMODITY CHARGE, WITHOUT**  
8 **REGARD TO TIERS, THAT WOULD BE DERIVED FROM YOUR COST**  
9 **OF SERVICE STUDY?**

10 A. The computed commodity rate is \$0.2994 per 1,000 gallons of water from the cost  
11 of service study.<sup>12</sup>

12 **Q. HOW DOES THE COMPUTED COMMODITY RATE COMPARE TO THE**  
13 **COMPANY'S PRESENT AND PROPOSED COMMODITY RATES?**

14 A. The commodity rate under present rates being charged is \$0.92 per 1,000 gallons  
15 for the first 10,000 gallons and \$1.08 per 1,000 gallons over 10,000 gallons. The  
16 first tier rate is approximately 3.1 times what it costs to produce the water. The  
17 second tier rate is approximately 3.6 times what it costs to produce the water.

18 The Company's proposed commodity rates are \$0.96 for tier one, \$1.36 for  
19 the tier two, and \$1.86 for tier three for the 5/8x3/4 inch and 3/4 inch residential  
20 meters. The proposed first tier rates are about 3.2 times the cost to produce the  
21 water. The proposed second tier rates are nearly 4.5 times the cost to produce the  
22 water while the proposed third tier rate is nearly 6.2 times the cost to produce the  
23 water. Thus, the proposed first tier, second tier and third tier commodity rates are  
24 vastly overstated when compared to the cost to produce the water.

25  
26 <sup>12</sup> See Schedule G-8, page 3.

1 **Q. WHAT IS THE IMPACT OF SETTING THE MONTHLY MINIMUMS**  
2 **SUBSTANTIALLY BELOW COST?**

3 A. It adds substantial risk. Inverted multi-tiered rates designs as proposed in this case  
4 encourage conservation. If conservation is actually achieved, usage will decline  
5 and it will cause a substantial shortfall in the revenues the Company collects. That  
6 means that it will be impossible to actually achieve the requested return. The  
7 Company's proposed design reduces the amount recovered from the monthly  
8 minimums which does not help mitigate the revenue instability since the monthly  
9 minimums do not cover the demand, customer, meter and service costs (the "fixed"  
10 costs in the cost of service).

11 **Q. COULD YOU ILLUSTRATE THE ABOVE ANSWER?**

12 A. Yes. Schedule G-9 illustrates what happens when conservation is achieved. On  
13 Schedule G-9, page 1, I have constructed the illustration showing the profit or loss  
14 from proposed rates that is achieved for the 5/8 inch metered residential customer  
15 at increments of 1,000 gallons through 100,000 gallons of monthly usage. The  
16 cross over point going from a loss to a profit is between 10,000 and 12,000 gallons  
17 and is substantially above the average usage for the 5/8x3/4 inch meter customer  
18 class of approximately 6,395 gallons.

19 On Schedule G-9, page 2, I have constructed the illustration showing the  
20 profit or loss from proposed rates that is achieved for the 3/4 inch metered  
21 commercial customer (there are no 3/4 inch residential customers) at increments of  
22 1,000 gallons through 100,000 gallons of monthly usage. The cross over point  
23 going from a loss to a profit is between 16,000 and 18,000 gallons and is  
24 substantially below the average usage for the 3/4 inch metered commercial  
25 customer class of approximately 31,484 gallons.  
26

1 On Schedule G-9, page 3, I have constructed the illustration showing the  
2 profit or loss from proposed rates that is achieved for the 1 inch metered residential  
3 customer at increments of 1,000 gallons through 100,000 gallons of monthly usage.  
4 The cross over point going from a loss to a profit is between 20,000 and 25,000  
5 gallons and is substantially below the average usage for the 1 inch metered  
6 residential customer class of approximately 28,258 gallons.

7 By pricing the monthly minimum substantially below cost and the  
8 commodity rate substantially above cost, the Company will underearn if water  
9 sales drop. Conversely, if water sales increase, there is the potential to over earn.  
10 Although in this particular case, since the average usage of the largest customer  
11 class (5/8x3/4 inch residential) is well below the break-even point, the potential to  
12 over earn is far less likely than the potential to under earn.

13 **Q. WHAT ABOUT MOVING FROM A TWO-TIERED TO A THREE-TIERED**  
14 **RATE DESIGN, PARTICULARLY FOR THE SMALLER RESIDENTIAL**  
15 **METERS?**

16 A. That adds further risk. With the proposed rate design, the monthly minimum is  
17 being substantially subsidized by the commodity rate. In other words, the  
18 Company must recover a large amount of fixed costs, through sales of water, which  
19 can vary based on weather, or conservation efforts. Any conservation by  
20 customers will substantially impact the Company's net income.

21 **Q. WHAT HAPPENS WHEN THE MONTHLY MINIMUMS AND**  
22 **COMMODITY RATES ARE NOT PRICED AT COST?**

23 A. Two things can happen. If customers don't conserve and usage increases rather  
24 than decreases, the Company will over earn. If customers conserve, or just use less  
25  
26



1 water due to more rainfall, the Company will under earn. If usage changes  
2 substantially, either up or down, the impacts I just referred to will be magnified.

3 **Q. BUT EVEN IF THE MONTHLY MINIMUMS AND COMMODITY RATES**  
4 **ARE PRICED AT COST, WOULDN'T THE COMPANY STILL OVER OR**  
5 **UNDER EARN IF CUSTOMERS USE MORE OR LESS WATER?**

6 A. Yes, but to a lesser lower extent.

7 **Q. WHAT WOULD BE A SINGLE TIERED RATE DESIGN ASSUMING**  
8 **APPROXIMATELY THE SAME LEVEL OF REVENUES WERE**  
9 **RECOVERED THROUGH THE MONTHLY MINIMUM AS PROVIDED**  
10 **BY THE COMPANY'S PROPOSED MONTHLY MINIMUMS?**

11 A. On Schedule G-8, page 4, I set forth a computation of a single tiered rate design.  
12 The rate design assumes rates charged are sufficient to recover the customer's cost  
13 of service which would include the 9.47 percent return. As shown, the 5/8x3/4  
14 inch month minimum would be \$9.64 and the commodity rate \$0.941. My  
15 computation contemplates 45 percent of the demand costs and 45 percent of the  
16 customer, service and meter costs included in the computation of the monthly  
17 minimum. The 45 percent is substantially above the 33 percent of the proposed  
18 revenues recovered through the monthly minimums in the instant case. However,  
19 in my experience, the monthly minimums under Staff's proposed rate designs  
20 typically recover 40 to 50 percent of the "fixed costs." Thus, 45 percent is not an  
21 unreasonable figure.

22 The computed monthly minimum of \$9.64 is higher than the proposed  
23 monthly minimum of \$7.36 for a 5/8x3/4 inch metered residential customer. The  
24 computed commodity rate of \$0.941 is slightly lower than the proposed first tier  
25  
26

1 rate of \$0.96 and approximately 1.45 times the proposed second tier rate of \$1.36,  
2 and nearly 2 times the third tier rate of \$1.86.

3 **Q. WHAT IS THE RANGE OF THE RETURNS FOR THE VARIOUS METER**  
4 **SIZES AT PRESENT RATES?**

5 A. As shown on Schedule G-1, the returns vary substantially between the various  
6 meter sizes at the present rates. The largest customer class, the 5/8x3/4 inch  
7 residential, provides the lowest return under the present rates. In fact, the return is  
8 a negative 0.59 percent, which implies that this class of customer is not paying its  
9 cost of service and is the largest cause of the overall low return of 1.47 percent for  
10 the test year under present rates. On the other hand, the larger sized meters, such  
11 as the 1 inch, 1½ inch, 2 inch are providing positive returns. Even the irrigation  
12 class is providing a positive return, and the irrigation class has the lowest  
13 commodity rate. This is largely because of the volume of water sold to the  
14 irrigation class. That said, the positive returns of the larger meter sizes and the  
15 irrigation customers indicate that these customer classes are subsidizing the 5/8x3/4  
16 inch customer class.

17 **Q. WHAT ARE THE RETURNS FOR THE VARIOUS METER SIZES AT**  
18 **PROPOSED RATES?**

19 A. As shown on Schedule G-2, the returns at proposed rates also vary substantially  
20 between the various meter sizes. While all the returns are positive, the 5/8x3/4  
21 inch metered residential customers continue to provide the lowest return at 4.34  
22 percent. In fact, the 4.34 percent return is well below the Company's requested  
23 return of 9.47 percent. As can be found, the larger sized meters, such as the 1 1/2  
24 inch, 2 inch, as well as the irrigation class, are providing much higher, positive  
25 returns. This indicates that the larger meter customer classes and the irrigation  
26 class continue to subsidize the 5/8x3/4 inch residential customers under the

1 Company's proposed rates. However, consistent with the concept of gradualism,  
2 there is a material improvement in eliminating subsidization of the 5/8x3/4 inch  
3 meters under the Company's proposed rates.

4 **Q. ISN'T THE RETURN PROVIDED BY THE IRRIGATION CLASS THE**  
5 **HIGHEST?**

6 **A.** Yes. As shown on Schedule G-2, the irrigation class provides the highest return at  
7 over 57 percent. I should note that under the Company's proposed rate design, the  
8 irrigation class will be impacted the greatest with a rate increase at the average  
9 usage of nearly 94 percent.<sup>13</sup> This is over 2.6 times the impact on the 5/8x3/4 inch  
10 residential customers at about 36 percent.

11 **IV. WASTEWATER DIVISION**

12 **A. Summary of A, E and F Schedules**

13 **Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S WASTEWATER**  
14 **DIVISION SCHEDULES. PLEASE DESCRIBE THE SCHEDULES**  
15 **LABELED AS A, E, AND F.**

16 **A.** The A-1 Schedule is a summary of the Wastewater Division rate base, operating  
17 income, current operating margin, required operating margin, operating income  
18 deficiency, and the increase in gross revenue. A 9.47 percent return on FVRB is  
19 requested. The increase in the revenue requirement is \$691,210. Revenues at  
20 present and proposed and customer classifications are also shown on this schedule.

21 The A-2 Schedule is a summary of results of operations for the test year,  
22 prior years, and a projected year at present rates and proposed rates.

23 Schedule A-3 contains the Company's capital structure for the test year and  
24 the two prior years.

25  
26 <sup>13</sup> See Schedule H-2, page 1.

1           Schedule A-4 contains the plant construction, and plant in service for the  
2 test year and prior years. The projected plant additions are also shown on this  
3 schedule.

4           Schedule A-5 is the summary of the Company's changes in financial  
5 position (cash flow) for the prior two years, the test year at present rates, and a  
6 projected year at present and proposed rates.

7           The E Schedules are based on the Company's actual operating results, as  
8 reported by the Company in annual reports filed with the Commission. The E-1  
9 Schedule contains the comparative balance sheet data the years 2008, 2009, and  
10 2010 ending on December 31.

11          Schedule E-2, page 1, contains the income statement for the years 2008,  
12 2009, and 2010 ending on December 31.

13          Schedule E-3 contains the statements of changes in the Company's financial  
14 position for the test year and the two prior years.

15          Schedule E-4 provides the changes in membership equity.

16          Schedule E-5 contains the Company's plant in service at the end of the test  
17 year, and one year prior to the end of the test year.

18          Schedule E-7 contains operating statistics for the years ended 2008, 2009,  
19 and 2010 ending on December 31.

20          Schedule E-8 contains the taxes charged to operations.

21          The accountant's notes to the financial statements and the financial  
22 assumptions used in preparing the rate filing schedules are shown on Schedules E-9  
23 and F-4, respectively, in accordance with the Commission's standard filing  
24 requirements. The Company does not prepare audited financial statements.

25          Schedule F-1 contains the results of operations at the present rates (actual  
26 and adjusted), and at proposed rates.

1 Schedule F-2 contains the summary of changes in financial position (cash  
2 flow) for the prior two years, the test year at present rates, and a projected year at  
3 present and proposed rates.

4 Schedule F-3 shows the Company's projected construction requirements for  
5 2011, 2012, and 2013.

6 Schedule F-4 contains the assumptions used in developing the adjustments  
7 and projections contained in the rate filing.

8 **B. Rate Base (B Schedules)**

9 **Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE**  
10 **LABELED AS THE B SCHEDULES?**

11 A. Yes. I will start with Schedule B-5, which is the working capital allowance. My  
12 rationale for not doing a lead/lag study and the reasons for my recommendation of  
13 zero working capital are explained above with respect to the Water Division.<sup>14</sup>

14 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**  
15 **THE WASTEWATER DIVISION'S ORIGINAL COST RATE BASE?**

16 A. Yes. Schedule B-2 shows adjustments to the Wastewater Division's OCRB cost  
17 rate base proposed by the Company. Schedule B-2, pages 2 through 5, provide the  
18 supporting information. These adjustments are, in summary:

19 B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-  
20 in-service. There are a number of plant-in-service adjustments included in  
21 Adjustment 1. These are shown on Schedule B-2, page 3, and are labeled as  
22 adjustments "A," "B," "C," and "D."

23 Adjustment A of B-2 adjustment number 1 adjusts plant-in-service to reflect  
24 the reclassification of plant from the Wastewater Division to the Water Division.  
25

26 <sup>14</sup> See pages 6 – 7, *supra*.

1 This reclassification of plant is discussed in more detail in the Direct Testimony of  
2 Ray Jones.<sup>15</sup>

3 Adjustment B of B-2 adjustment number 1 adjusts plant-in-service to reflect  
4 the reclassification of plant from the Water Division to the Wastewater Division.  
5 In short, the reclassified plant is related to effluent recharge facilities and  
6 equipment which more properly belongs with the Wastewater Division. This  
7 reclassification of plant is also discussed in more detail in Mr. Jones' direct  
8 testimony.<sup>16</sup>

9 Adjustment C of B-2 adjustment number 1 adjusts plant-in-service to reflect  
10 retirements that were not recorded as of the end of the test year. The proposed  
11 plant retirements are discussed in more detail in Mr. Jones' direct testimony.<sup>17</sup>

12 Adjustment D of B-2 adjustment number 1 reclassifies plant-in-service to  
13 the proper plant-in-service accounts. The net adjustment to plant-in-service is zero.  
14 This adjustment is discussed in more detail in Mr. Jones' testimony.<sup>18</sup>

15 **Q. PLEASE CONTINUE.**

16 **A.** Adjustment B-2 shown on Schedule B-2, page 2, adjusts accumulated depreciation.  
17 The details of the accumulated depreciation adjustment are shown a Schedule B-2,  
18 page 4. There are two plant-in-service adjustments included in Adjustment 2.  
19 These are shown on Schedule B-2, page 4, and are labeled as adjustments "A" and  
20 "B."

21 Adjustment A of B-2 adjustment number 2 adjusts accumulated depreciation  
22 for the proposed retirements shown in Adjustment C of B-2 adjustment number 1.  
23

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24 <sup>15</sup> See Jones Dt. at 9.

25 <sup>16</sup> *Id.* at 10:20 – 11:3.

26 <sup>17</sup> *Id.* at 11:4-8.

<sup>18</sup> *Id.* at 8:17 – 9:3.

1 Adjustment B of B-2 adjustment number 2 adjusts accumulated depreciation  
2 reflects the re-computed amounts of accumulated depreciation per the Company's  
3 B-2 plant schedule.

4 **Q. DO THE PLANT IN SERVICE AND ACCUMULATED DEPRECIATION**  
5 **BALANCES SHOWN ON B-2 REFLECT THE LAST COMMISSION RATE**  
6 **ORDER?**

7 A. Yes. The construction of the plant and accumulated depreciation balances is  
8 discussed in the Direct Testimony of Ray Jones.<sup>19</sup>

9 **Q. PLEASE CONTINUE.**

10 A. Adjustment B-2 shown on Schedule B-2, page 5, adjusts the accumulated  
11 amortization balance of CIAC to the recomputed amount reflecting the annual  
12 composite depreciation rate for plant-in-service.

13 **Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON**  
14 **A-1 DETERMINED?**

15 A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no  
16 adjustment for the current values of the Company's plant and property.

17 **C. Income Statement (C Schedules)**

18 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO**  
19 **THE WATER DIVISION INCOME STATEMENT AS SHOWN ON**  
20 **SCHEDULES C-1 AND C-2.**

21 A. The following is a summary of adjustments shown on Schedule C-1:

22 Adjustment 1 annualizes depreciation expense. The proposed depreciation  
23 rate for each component of utility plant is shown on Schedule C-2, page 2. The  
24 depreciation rates approved in the Wastewater Division's last rate case were  
25

26 <sup>19</sup> *Id.* at 10:1-19.

1 account specific rates. The Company proposes to continue to use account specific  
2 rates on a going forward basis.

3 Adjustment 2 increases the property taxes based on proposed revenues. The  
4 details of the computation are shown on Schedule C-2, page 3. I discussed the  
5 property tax computation earlier in my testimony.<sup>20</sup>

6 Adjustment 3 shows the rate case expense estimated by the Company. The  
7 Company estimates rate case expense for the Wastewater Division of \$200,000. I  
8 explained the basis for this estimate in my testimony for the Water Division.<sup>21</sup>

9 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME**  
10 **STATEMENT ADJUSTMENTS.**

11 A. Adjustment 4 annualizes revenues to the year-end number of customers. The  
12 annualization of revenues is based on the number of customers at the end of the test  
13 year, compared to the actual number of customers during each month of the test  
14 year. Average revenues per customer by month were computed for the test year  
15 and then multiplied by the increase (or decrease) in number of customers for each  
16 month of the test year. The total of the monthly revenue change comprise the  
17 revenue annualization. This was done for each customer class.

18 Adjustment 5 increases purchased power reflecting the offset of a one-time  
19 rebate credit from the Ocotillo Water Conservation District, as well as the  
20 additional power costs associated with recharge wells that the Company proposes  
21 to include in the Wastewater Division's plant that was recorded on the water books.

22 Adjustment 6 annualizes purchased power expense based on the additional  
23 gallons sold from annualizing revenues to the year-end number of customers in  
24

25 <sup>20</sup> See pages 10 – 12, *supra*.

26 <sup>21</sup> See pages 12– 14, *supra*.



1 Adjustment 4, above. This adjustment is intended to match the additional expense  
2 associated with the revenue annualization.

3 Adjustment 7 increases operating expenses for amortization of previously  
4 authorized deferred operating costs. The Company has followed the method for  
5 computing the amount to be recovered and the amortization set forth in Decision  
6 62184 (January 5, 2000). The recovery of deferred operating costs is discussed in  
7 more detail in the Direct Testimony of Ray Jones.<sup>22</sup>

8 Adjustment 8 reduces other wastewater revenues to reflect the annualized  
9 portion of effluent recharge credits sold during the test year.

10 **Q. PLEASE EXPLAIN.**

11 A. Pima recharges effluent water through its recharge system and receives credit from  
12 ADWR. When enough credits are accumulated and there is a willing purchaser,  
13 the Company sells the credits. The Company's sale of effluent credits totaled  
14 \$40,000 during the test year. The Company estimates that such sales will occur  
15 about every ten years. Thus, the Company's adjusted test year revenues include  
16 \$4,000 of effluent credit sales revenues (\$40,000/10 years).

17 Adjustment 9 reflects the change to interest expense to reflect interest  
18 synchronization with rate base.

19 Adjustment 10 reflects income taxes based upon the Company adjusted test  
20 year revenue and expense. The rationale for including income taxes and the  
21 methods employed for determination of the effective federal and state tax rates was  
22 discussed earlier in my testimony.<sup>23</sup>

23  
24  
25 <sup>22</sup> Jones Dt. at 11 – 12.

26 <sup>23</sup> See pages 15– 18, *supra*.

1           **D.    Rate Design (H Schedules).**

2   **Q.    WHAT ARE THE COMPANY'S PRESENT RATES FOR WASTEWATER**  
3   **SERVICE?**

4   **A.    The Company's present rates are:**  
5   **MONTHLY SERVICE CHARGES**

6	5/8" x 3/4" Meter	\$22.73
7	3/4" Meter	\$35.33
8	1" Meter	\$59.33
9	1 1/2" Meter	\$117.33
10	2" Meter	\$187.33
11	3" Meter	No Tariff
12	4" Meter	No Tariff
13	6" Meter	No Tariff
14	Effluent Sales	
15	Monthly minimum	\$180.00
16	Gallons in minimum	100,000
17	Commodity Rate	\$0.58

18   **Q.    WHAT ARE THE COMPANY'S PROPOSED RATES FOR**  
19   **WASTEWATER SERVICE?**

20   **A.    The Company's proposed rates are:**  
21   **MONTHLY SERVICE CHARGES**

22	5/8" x 3/4" Meter	\$27.79
23	3/4" Meter	\$43.19
24	1" Meter	\$72.53
25	1 1/2" Meter	\$143.44
26	2" Meter	\$229.01

1	3" Meter	\$444.60
2	4" Meter	\$694.69
3	6" Meter	\$1,389.37
4		
5	Effluent Sales	
6	Monthly minimum	\$232.56
7	Gallons in minimum	0
8	Commodity Rate	\$0.70

9                   **1. Other Tariff Changes.**

10 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO MISCELLANEOUS**  
11 **SERVICE CHARGES FOR THE WASTEWATER DIVISION?**

12 A. Yes. The Company is proposing to eliminate the \$260 impact fee as well as the  
13 \$500 Disconnect/Reconnect fee as the Company believes it these are no longer  
14 needed. The Company is proposing an establishment fee, reestablishment fee  
15 (within 12 months), reconnection fee (delinquent), and an after-hours service  
16 charge.

17 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes.



Pima Utility Company

Thomas Bourassa Direct Testimony  
(Rate Base)

**Exhibit TJB-RB-DT1**

111 FERC ¶ 61,139  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;  
Nora Mead Brownell, Joseph T. Kelliher,  
and Suede G. Kelly.

Inquiry Regarding Income Tax Allowances

Docket No. PL05-5-000

POLICY STATEMENT ON INCOME  
TAX ALLOWANCES

(Issued May 4, 2005)

1. On December 2, 2004, the Commission issued a notice of inquiry regarding income tax allowances. The Commission asked interested parties to comment when, if ever, it is appropriate to provide an income tax allowance for partnerships or similar pass-through entities that hold interests in a regulated public utility. The Commission concludes that such an allowance should be permitted on all partnership interests, or similar legal interests, if the owner of that interest has an actual or potential income tax liability on the public utility income earned through the interest. This order serves the public because it allows rate recovery of the income tax liability attributable to regulated utility income, facilitates investment in public utility assets, and assures just and reasonable rates.

**I. Background**

2. The instant proceeding was initiated by the Commission in response to the U.S. Court of Appeals for the District of Columbia remand in *BP West Coast Products, LLC, v. FERC*,<sup>1</sup> in which the court held that the Commission had not justified the so-called *Lakehead* policy regarding the eligibility of partnerships for income tax allowances. The *Lakehead* case<sup>2</sup> held that a limited partnership would be permitted to include an income tax allowance in its rates equal to the proportion of its limited partnership interests owned by corporate partners, but could not include a tax allowance for its partnership interests that were not owned by corporations. Prior to *Lakehead*, the Commission's policy provided a limited partnership with an income tax allowance for all

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<sup>1</sup> *BP West Coast Products, LLC v. FERC*, 374 F.3d 1263 (D.C. Cir. 2004) (*BP West Coast*), *reh'g denied*, 2004 U.S. App. LEXIS 20976-98 (2004).

<sup>2</sup> *Lakehead Pipe Line Company, L.P.*, 71 FERC ¶ 61,388 (1995), *reh'g denied*, 75 FERC ¶ 61,181 (1996) (*Lakehead*).

of its partnership interests, but did so in the context that most partnerships were owned by corporations. This ruling was not appealed until a series of orders involving SFPP, L.P. in the proceedings underlying the remand.<sup>3</sup> The Commission's rationales for permitting a tax allowance for corporate partner interests were (1) the double taxation of corporate earnings, (2) the equalization of returns between different types of publicly held interests, *i.e.* the stock of the corporate partner (which involves two layers of taxation of partnership earnings) and the limited partnership interests (which involve only one), and (3) encouraging capital formation and investment.

3. The court found all of these rationales unconvincing. First, the court rejected the double taxation rationale in *Lakehead*, concluding that (1) only the costs of the regulated entity may be recovered, and (2) taxes are but one cost paid by a corporate partner as part of its cost of doing business.<sup>4</sup> The court also rejected the rationale that the investor should be able to obtain the same returns without regard to which instrument the investor purchases. The court rejected this argument by noting that if any income tax allowance is provided, this benefits all investors holding instruments proportionately because the additional income is shared on a *pro rata* basis.<sup>5</sup> Given this *pro rata* distribution of income by the partnership, the court concluded that non-corporate partners would receive an excess rate of return.

4. Thus, while the double taxation function may affect the eventual return for the investor, the court made clear that this is a function of corporate structure and the attendant tax consequences, not the regulated utility's risk.<sup>6</sup> The court therefore concluded that the investor's return and risk are no more appropriately attributed to the

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<sup>3</sup> *Opinion No. 435* (86 FERC ¶ 61,022 (1999)), *Opinion No. 435-A* (91 FERC ¶ 61,135 (2000)), *Opinion No. 435-B* (96 FERC ¶ 61,281 (2001)), and an *Order on Clarification and Rehearing* (97 FERC ¶ 61,138 (2001)) (collectively the Opinion No. 435 orders.) These are now pending before the Commission on remand and rehearing in Docket Nos. OR92-8-000, *et al.*, and OR96-2-000, *et al.*, respectively.

<sup>4</sup> *BP West Coast* at 1288.

<sup>5</sup> *Id.* at 1292-93.

<sup>6</sup> In making a decision whether to buy a limited partnership interest (where only the unit holder's income is taxed), or a share of a corporate partner (where the corporate income is taxed as well), it should be the individual investor that makes the adjustment for the double taxation. The individual investor can do this by paying prices that equalize the pre-tax return to the investor of the different instruments that have income derived from the same public utility assets.

regulated entity than are the investor's various costs in determining the costs or allowances that the regulated entity is permitted to recover.

5. The court also rejected the Commission's third rationale that an income tax allowance should be permitted to encourage capital to flow into public utility industries regulated by the Commission.<sup>7</sup> Throughout its analysis the court stated that the Commission's central assumption in its *Lakehead* decisions was that income taxes are an identifiable cost for the regulated entity. Thus, if a partnership paid no income taxes, or had no potential income tax liability, no cost was incurred and therefore an income tax allowance would reimburse the entity for a phantom cost. Accordingly, the court concluded that a payment for a non-existent cost was still invalid even if designed to encourage needed infra-structure investment.

6. While the court's decision addressed only the Order No. 435 opinions, it became apparent that the remand has implications for other proceedings and regulated utilities as well. As was discussed in the more recent *Trans-Elect* order,<sup>8</sup> denying a tax allowance would significantly reduce the expected returns that were the basis for the investment in that project. In light of the broader implications of *BP West Coast*, the Commission sought comments here on whether the court's ruling applies only to the specific facts of the SFPP, L.P. proceeding, or also extends to other capital structures involving partnerships and other forms of pass-through ownership. The Commission asked whether the court's reasoning should apply to partnerships in which: (1) all the partnership interests are owned by investors without intermediary levels of ownership; (2) the only intermediary ownership is a general partnership; (3) all the partnership interests are owned by corporations; and (4) the corporate ownership of the partnership interests is minimal, such as a one percent general partnership interest of a master limited partnership. The Commission also asked if (1) the court's decision precludes an income tax allowance for a partnership or other ownership interests under any of these situations, will this result in insufficient incentives for investment in energy infrastructure; (2) or will the same amount of investment occur through other ownership arrangements; and (3) are there other methods of earning an adequate return that are not dependent on the tax implications of a particular capital structure?

## **II. Comments**

7. After an extension of the comment period to January 21, 2005, thirty-three comments were timely filed with an additional nine comments filed late. As enumerated below in greater detail, the comments advocate four general positions. While no party

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<sup>7</sup> *BP West Coast*. at 1292-93.

<sup>8</sup> *Trans-Elect NTS Path 15, LLC*, 109 FERC ¶ 61,249 (2004) (*Trans-Elect*).



argues for the continuation of the *Lakehead* doctrine in its current form, three appear to argue that an approach should be used to preserve the tax allowances now available to certain limited liability corporations (LLCs), or possibly provide a justification for tax allowances for all partnerships and LLCs, as long as there is no additional cost to the rate payers beyond that which would have been incurred through a corporate form. Three commentators argue for granting a tax allowance if a partnership is entirely owned by a tax paying corporation filing a consolidated return. Ten argue that the tax allowance should be granted only to entities that actually pay taxes and that there should be no allowance for "phantom" taxes. Twenty-four commentators would provide a tax allowance to all entities to assure that tax factors do not control the selection of the investment vehicle. Two filings were limited to interventions or minor comments and are not discussed further in this order.<sup>9</sup>

#### **A. Proposals Akin to *Lakehead***

8. Three commentators expressed concern about the possible impact of the court's decision on existing public utility partnerships that include for-profit private and non-profit public electric utilities.<sup>10</sup> These concerns are summarized by Wisconsin Public Power Inc. (WPPI), which asserts that the Commission should permit LLCs and partnerships to have an income allowance if the LLC demonstrates that its structure would not increase the income tax component of the cost of service to transmission rate payers. WPPI is a part owner of the American Transmission Company, LLC (ATCLLC), which owns transmission lines conveyed to it by various utilities, private and public, in Wisconsin. To maintain cash flow neutrality for its owners after the facilities were transferred to ATCLLC, ATCLLC was provided a tax allowance equal to the blended tax rate of its owners. Thus, to the extent that the income stream to a private owner would be taxed at 35 percent, ATCLLC was provided an allowance for taxes on that income. A municipality pays no taxes and therefore that portion of the income stream did not result in a tax allowance. The ATCLLC income stream is then allocated at the owner level in a way that prevents over or under-recovery.

9. WPPI states that this arrangement assured that the income stream from transmission operations would not be taxed at the operating level of ATCLLC, thus retaining the two tier structure that existed before the various private companies divested their transmission assets to ATCLLC. These two historical taxation tiers were the corporate income tax and the tax on the shareholder dividends. ATLLC states that

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<sup>9</sup> Edison Mission Energy, which urged that the income tax allowance issue be resolved quickly, and Piedmont Natural Gas Company, Inc., which only intervened.

<sup>10</sup> Electric Power Supply Association (EPSA); Michigan Electric Transmission Company, LLC (METC); Wisconsin Public Power, Inc.

without the use of the LLC form, and a tax allowance attributable to the utility income stream, the private shareholders would suffer a loss in value because of the additional level of taxation on transmission income. Thus, the value of a transmission interest in ATCLLC would be diminished below the value it had for the private corporation before the transfer of the asset. For this reason the private companies would not have transferred their assets to ATCLLC. WPPI therefore concludes that the tax allowance on the income stream of LCC that pays no income taxes itself was essential to the creation of an independent transmission system on the upper Michigan peninsula.

10. METC likewise requests a solution that would preserve the rate attributes historically extended to LLCs, consistent with the methodology first announced in the *Lakehead* cases. Most importantly, METC asserts that the Commission should take no action that would undermine existing investments in independent transmission companies that are LLCs. Thus, METC's concerns do not turn on the preservation of the *Lakehead* doctrine as such, but that the corporate shareholders of that LLC are not deprived of the tax allowance that was built into the rates of return on the transmission assets that these firms contributed to METC's independently owned transmission system.

11. EPSA urges that the Commission affirm the *Lakehead* philosophy by providing the Court of Appeals with a better rationale. EPSA suggests that there are six basic options available to the Commission. One is to give utilities organized as corporations a tax allowance, but not partnerships. A second is to treat partnerships and corporations the same and give both a tax allowance. A third is to deny any partnerships with non-corporate owners a tax allowance but permit the allowance for partnerships owned wholly by corporations. A fourth is to readopt *Lakehead*. A fifth is to eliminate the allowance and base rates on pre-tax rates of return. A sixth is to decide matters of partnership income tax allowances on a case-by-base basis.

12. EPSA states that first option would have a serious negative consequence on raising capital for the industry, particularly with regard to large projects with multiple owners. It notes that even if corporate-owned partnerships could reorganize to qualify for a tax allowance, there are additional administrative costs that would be passed on to consumers. It further asserts that a case-by-case approach would result in uncertainty and to disqualify a partnership based on a single non-corporate partner seems unfair and hard to justify analytically. Determining returns on a pre-tax basis is likely to be controversial and difficult to implement.

13. EPSA therefore concludes that the only realistic options are (1) treating all entities the same; or (2) a continuation of the Commission's *Lakehead* policy. EPSA notes that taxes are an imputed cost based on public utility net income. As such, EPSA claims that the court ignored the fact that taxes are imputed to a utility in situations where the utility pays no actual taxes because the corporate income tax allowance is based on the regulatory book income of the utility in question. EPSA's analysis assumes that the

required rate of return is 12 percent. EPSA then asserts that in the absence of a tax allowance, a utility subject to the 35 percent corporate income tax would only pay out dividends equivalent to 7.8 percent net income (instead of 12 percent).

14. EPSA states that in contrast, the corporate tax allowance increases the utility's pre-tax return on equity to 18.5 percent, which after application of the 35 percent tax rate, results in the 12 percent equity return. EPSA concludes that if an allowance is not allowed to partnerships owned by one or more corporations, the amount returned to the parent corporation will not be sufficient to attract equity investment. Since EPSA opposes an income tax allowance for pass-through entities that are not owned by a corporation, and believes it unfair to deny an income tax allowance if some of the partnership interests are not owned by a corporation, it concludes that the *Lakehead* approach should be affirmed.

#### **B. If a Corporation Owns the Partnership Interests**

15. Three commentors<sup>11</sup> argue that an income tax allowance should be allowed if the partnership interests are owned wholly by corporations filing a consolidated return. In support of this position, Kern River states that the Commission's stand alone rate-making policy should apply, just as it does in the case of a consolidated return that can be filed when a parent corporation owns at least 80 percent of a subsidiary's stock.<sup>12</sup> All three of these commenters assert that in the case of a regulated partnership held within a single corporation and whose income is included in a consolidated return, the income from the regulated partnership generates a tax liability that is included in the jurisdictional cost of service of the corporate group.

16. Kern River further states that there is no question that income generated by a partnership within a corporate group creates an income tax liability for the group. This is because, while the partnership is not taxed directly, its income is flowed through to the corporations that hold the partnership interests. Duke Energy further asserts that *BP West Coast* was not intended to invalidate an income tax allowance for pass-through entities owned by corporations and at a minimum that decision should be restricted to its

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<sup>11</sup> Duke Energy Corporation; Kern River Gas Transmission Company (Kern River); Texas Gas Transmission, LLC.

<sup>12</sup> The stand-alone policy provides that income tax allowance of a corporate subsidiary should be determined based on the actual or potential income tax obligation of that subsidiary. Thus, the amount of the allowance is not based on the tax obligation of the parent company in the test year in which the consolidated return is filed. See *City of Charlottesville v. FERC*, 774 F.2d 1205 (D.C. Cir. 1985) (*City of Charlottesville*).

facts.<sup>13</sup> Thus, regardless of the corporate structure, the income a partnership generates is a part of the consolidated group's taxable income, and therefore generates a corporate tax liability. These commenters therefore assert that a partnership that is wholly owned by a corporation should be granted an income tax allowance.

### **C. Opposition to Any Allowance if Taxes are not Actually Paid**

17. Ten commentors assert that there should be no tax allowance for any entity that does not actually pay income taxes or has a potential liability for such taxes.<sup>14</sup> Only one such commentor, the NGSA, suggests that the court's ruling should be applied on a case-by-cases basis. All others assert that the court's holdings should be applied uniformly to all partnerships, LLCs, or similar pass-through entities, thus creating a single uniform rule. Thus, there would be no income tax allowance for any partnership or LLC, including those owned by corporations that do not have an actual or potential income tax liability. They assert that the court's decision is binding on the Commission, and that there should be no income tax allowance for partnerships that do not pay income taxes.

18. They assert that any such phantom taxes will result in a significant increase in rates to customers or consumers. This is because the gross-up for the income tax allowance could result in as much as a 60 percent increase in the rate of return on equity assuming that the regulated entity is allowed a twelve percent rate of return on equity.<sup>15</sup> Any gross-up from the tax allowance represents an increase in return for entities that may be already charging unjust and unreasonable rates even if a tax allowance were excluded. Rather than provide an inflated return, they assert that any needed incentives for increased investment should be provided by special actions to increase the pre-tax rate of return. Given this alternative, denying a tax allowance will not act as a disincentive to investment in infra-structure facilities.

19. In addition, BP West Coast Products asserts that the inquiry in Docket No. PL05-5-000 was prompted by *ex parte* communications to the Commission and therefore no determinations of any specific income tax issues should be made in this proceeding. It further asserts that the partners investing in SFPP's parent entities will rarely pay taxes on the income generated by that partnership and that many such master limited partnerships

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<sup>13</sup> Kern River at 7-8; Duke Energy at 4-5.

<sup>14</sup> Air Transport Association of America, Inc.; American Public Gas Association; BP West Coast Products; Calpine Corporation; Canadian Association of Petroleum Producers; Missouri Public Service Commission; Natural Gas Supply Association (NGSA); National Rural Electric Cooperative Association; Society for the Preservation of Oil Pipeline Shippers; and Valero Marketing and Supply Company.

<sup>15</sup> See BP West Coast Products at 6; NGSA at 3.

(MLP) are intended to act as tax shelters that remove cash from existing pipelines. BP West Coast Products concludes that providing MLPs an income tax allowance is not necessary to encourage new investment and that this should be done by providing an increased pre-tax rate of return

20. At bottom, these commentators base their argument on three central points in the *BP West Coast* opinion. The first is that “where there is no tax generated by the regulated entity, either standing alone or as part of a consolidated group, the regulator cannot create a phantom tax in order to create an allowance to pass-through to the rate payer.”<sup>16</sup> The second is that it is not “the business of the Commission to create a tax liability where neither an actual nor estimated tax is ever going to be paid or incurred on the income of the utility in the rate making proceeding.”<sup>17</sup> The third is even if an income tax allowance is necessary to implement a congressional mandate designed to encourage investment in public utility facilities, the court concluded was inadequate to create an allowance for fictitious taxes.<sup>18</sup>

#### **D. Comments Supporting a Tax Allowance for All Entities**

21. Twenty-four commentators<sup>19</sup> support a tax allowance for all entities investing in public utility enterprises. These commentators start from the premise that the court did not have before it the realities of partnership or LLC taxation and as such did not address

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<sup>16</sup> *BP West Coast* at 1290.

<sup>17</sup> *Id.* at 1292.

<sup>18</sup> *Id.* at 1292-93.

<sup>19</sup> Alaska Gas Transmission Company, LLC; American Gas Association (AGA); Association of Oil Pipe Lines (AOPL); American Transmission Company, LLC; Duke Energy Corporation; Edison Electric Institute and the Alliance of Energy Suppliers, filing jointly; Enbridge Inc. and Enbridge Energy Partnerships; Enterprise Products Partners, L.P.; Guardian Pipeline; Hardy Storage Company, LLC; INGAA; Interested Gas Pipeline Partnerships; Kaneb Pipe Line Operating Partnership, L.P.; Kayne Anderson Capital Advisors and Kayne Anderson MLP (Kayne); Kinder Morgan Interstate Gas Transmission, LLC, Trailblazer Pipeline Company, and Transcolorado Gas Transmission Company, filing jointly; MidAmerica Energy Company; Millennium Pipeline Company, L.P.; Plains Pipeline, L.P.; Publicly Traded Limited Partnerships; Northern Border Pipeline Company; Shell Pipeline Company, L.P.; Tortoise Energy Infrastructure Corporation; Trans-Elect, Inc.; Trans-Elect NTD Path 15, LLC; Wisconsin Electric Power Company and Edison Sault Electric Company, filing jointly; and WPS Resources Corporation (WPSR).

them. These commenters thus believe there is no barrier to considering the issue of tax allowances for partnerships in light of the fuller record presented in this proceeding. In fact, some state that this proceeding is an opportunity to reconsider the Commission's *Lakehead* decision, which they believe was incorrect, and to return to the Commission's pre-*Lakehead* policies. In this regard, they conclude, contrary to the court's statement in *BP West Coast* and the Commission's *Lakehead* decision, income taxes are not like all other costs. Unlike operating expenses such as office supplies, rent, or wages, they argue that income taxes are imposed on, or imputed to, a public utility's income, and as such income taxes are not a cash deduction from operations. Because the income tax allowance is imputed, it is grossed-up on the utility's allowable dollar return rather than functioning as a charge against operating income. Thus, the income tax allowance is a function of the equity return, and in turn generates the cash flow that is used to pay the utility income taxes.<sup>20</sup>

22. Proceeding from the premise that income taxes are an imputed cost on income, these twenty-four commentors assert that whether the entity is a corporation or a partnership, there is an actual or potential income tax liability generated by utility income. In turn, it is utility income that generates the cash flow used to pay the income taxes. They claim that this is true whether the income tax is actually paid by a corporation as the first tier investor, or the partners of a partnership as the first-tier investors. They define a first tier investor is one that invested funds in assets that are generating the public utility income. These commentors stress that the critical point is that while a partnership owns the public utility assets, it is a flow-through entity whose income is taxed not at the partnership level, but is taxed to and paid by the individuals or entities that own the partnership interests.

23. Thus, they state that in the case of a partnership, the partners include the utility income in their income tax returns and the tax on utility income is paid at that point.<sup>21</sup> The tax on this income is paid whether or not cash distributions are made to the partners.

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<sup>20</sup> Thus, for example, if gross revenues are \$500, and operating expenses such as rent, fuel, labor, interest, repairs, and depreciation of \$400 are charged against gross revenues, this would leave operating income of \$100. Assuming this equals the allowed equity return, the corporate tax on this \$100 would be \$35. The \$100 is therefore grossed up to approximately \$154 to leave a \$100 return after payment at an income tax rate of 35 percent. See *Northern Border* at 5 – 7 and 16; *INGAA* at 16.

<sup>21</sup> The individual partner files a Form 1040 tax return and pays the marginal individual tax rate on the utility income. The corporate partner files a Form 1120 tax return and pays the marginal corporate tax on the utility income. At the current time the maximum marginal tax rate in both cases is 35 percent. See *EEI's* comments at 10-11 for a concise summary of partnership tax law and filing procedures.

In contrast, a corporation that owns a public utility asset is the taxpaying entity on the income generated by utility income. These commentators assert that, as with a partnership, the tax on this first tier income is paid whether or not dividends are paid to the corporation's shareholders. The commentators therefore assert that there is no phantom tax liability on partnership income. This is because the tax liability on utility income is real, but it is paid by the partners rather than by a corporation that functions as a separate taxpaying entity.

24. These commentators also start from the basic regulatory premise that a utility must earn a return comparable to that of investment opportunities of similar risk if it is to attract investment.<sup>22</sup> They state that concept refers to the after tax, not the pre-tax, return to the investor in the utility assets is the standard used in public utility rate making regardless of the form of the ownership. Thus, if the after tax return must be 12 percent to attract capital, then all first tier investors in the utility assets must have a reasonable opportunity to earn a 12 percent after tax return if the utility is to attract capital. If partnerships are not permitted a tax allowance on utility income, then cash will not be generated to pay the taxes due on that utility income, and the partnership form of ownership would not be competitive with the corporate form.

25. These commentators also provide various numerical examples of how income tax returns would differ if partnerships are not provided a tax allowance. Assuming that \$100 is the after tax return required return to attract capital, the court's decision would permit a tax allowance sufficient to cover the 35 percent maximum corporate tax that would be paid on corporate income. The gross-up to achieve the after-tax return is about 54 percent and generates the cash flow to pay the tax. Thus, after the corporate income tax is paid, the after-tax return is \$100.<sup>23</sup>

26. If a partnership is permitted an income tax allowance, the result is the same because the maximum personal income tax allowance is also 35 percent. As with a corporation, the income tax allowance could provide the individual partners with the cash to pay the taxes on utility income, and therefore results in an after tax return of \$100, the allowed regulatory return. However, if an income tax allowance is not allowed the partnership, then the partners must pay a \$35 income tax on \$100 of utility income, leaving them with only an after-tax return of \$65. Therefore these commentators conclude that partnerships must be granted an income tax allowance to make the partnership and corporate business forms equally attractive because the tax implications are the same.

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<sup>22</sup> *F.P.C. v. Hope Natural Gas*, 320 U.S. 591, 603 (1943).

<sup>23</sup> See INGAA at 16-17; EEI at 13-14; Northern Border at 3-5, 7-8.

27. These commentators also explore some secondary tax factors to demonstrate the need for a partnership tax allowance if such entities are to be a competitive vehicle for investments. While taking some pains to avoid the double taxation issue discussed by the Court of Appeals, they point out that without an income tax allowance partnerships are not competitive with corporations for the individual investor who files a Form 1040 income tax return. As noted in the previous example, without a partnership income tax allowance, the after tax return to a corporate investor is \$100 and to the partnership investor it is \$65. Assuming that the corporation pays out all \$100 in dividends, the income tax for the Form 1040 individual investor is \$15, with a resulting after tax return of \$85.

28. Thus, they assert, for a Form 1040 individual investor who has the option of investing either in a corporation or partnership, the partnership is not competitive if, all other things being equal, there is no partnership tax allowance. Moreover, if a corporation owns less than 80 percent of a subsidiary corporation, the subsidiary's dividends are taxed. Pursuing the previous numerical example, if the ownership is greater than 20 percent or less than 80 percent, the 20 percent of the subsidiary's dividends are taxed, or a 7 percent tax differential at the 35 percent bracket. If the ownership is less than 20 percent, 30 percent of the subsidiary's dividends are taxed, or a 9.5 percent tax differential at the 35 percent rate. This increases the cost of participating in large projects in which risk sharing is a consideration.

29. These commentators also assert that there are other significant administrative and commercial advantages to partnerships beyond facilitating risk sharing. Benefits include the ability of some entities, such as municipalities or public transmission owners, to participate in partnerships, but not corporations, avoiding the expense involved in corporate charters, by-laws, shareholder meetings, and greater flexibility in making contributions in-kind and in distributing of earnings. They also argue that Congress clearly intended that utility firms were to be eligible for partnership treatment in order to encourage investment, and that the court's ruling undercuts this important purpose.

30. Finally, these commentators assert that numerous large public utility investments have been made in recent years relying on the tax allowance to provide part of the required after-tax return.<sup>24</sup> They note that as was discussed in the recent *Trans-Elect*

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<sup>24</sup> These commentators include Algonquin Gas Transmission, LLC; Alliance Pipeline, L.P.; ATLLC; East Tennessee Natural Gas, LLC; Egan Hub Partners, L.P.; Enbridge Pipeline; Horizon Pipeline Company, LLC; Great Lakes Natural Gas Pipeline; Green Banks Gas Pipeline, LLC; Gulfstream Natural Gas Pipeline; Iroquois Gas Transmission Company; Islander East Pipeline Co, LLC; Kinder Morgan Interstate Gas Transmission, LLC; Maritimes & Northeast Pipeline; Market Hub Partners, L.P.; METC; Moss Bluff Hub Partners, L.P.; North Baja Pipeline LLC; Portland Natural Gas Transmission System; Texas East Gas Transmission, LLP; TransCanada Corporation;



order,<sup>25</sup> denying a tax allowance would significantly reduce the expected returns that were the basis for that badly needed investment. They provide lists of numerous publicly traded partnerships that have substantial amounts of equity, and assert that some of these partnerships have made significant additional investments in reliance on the income tax allowance.<sup>26</sup> For these reasons these commentators conclude that all entities investing in utility operations, and generating utility income, should be permitted an income tax allowance. As discussed in the WPPI and EEI comments, the size of the allowance would be determined by the weighted maximum tax rate of the partners involved. Any problems of over- or under recovery would be adjusted within the partnership structure to assure that the benefits of any income tax allowance would not flow to a partner that had no actual or potential income tax liability.

### III. Discussion

31. The issue is under what circumstances, if any, an income tax allowance should be permitted on the public utility income earned by various public utilities regulated by the Commission. As stated earlier, while the court's decision in *BP West Coast* only addressed the particulars of a certain oil pipeline, the numerous comments submitted here indicate that partnerships or other pass-through entities are used pervasively in the gas pipeline and electric industries as well. Upon review of the comments, there appear to be four possible choices: (1) provide an income tax allowance only to corporations, but not partnerships; (2) give an income tax allowance to both corporations and partnerships; (3) permit an allowance for partnerships owned only by corporations; and (4) eliminate all income tax allowances and set rates based on a pre-tax rate of return.

32. Given these options, the Commission concludes that it should return to its pre-*Lakehead* policy and permit an income tax allowance for all entities or individuals owning public utility assets, provided that an entity or individual has an actual or potential income tax liability to be paid on that income from those assets. Thus a tax-paying corporation, a partnership, a limited liability corporation, or other pass-through entity would be permitted an income tax allowance on the income imputed to the corporation, or to the partners or the members of pass-through entities, provided that the corporation or the partners or the members, have an actual or potential income tax

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Trans-Elect ND-15; Tuscarora Gas Transmission Company; Saltville Gas Storage Company, L.L.C; and Shell Pipeline Company.

<sup>25</sup> *Trans-Elect NTS Path 15, LLC*, 109 FERC ¶ 61,249 (2004) (*Trans-Elect*).

<sup>26</sup> See comments of: Duke Energy Corporation at 9-10, 30; Enbridge Inc and Enbridge Energy Partners at 4-5; Gas Pipeline Partnerships at 2-4; Millennium Pipeline Company, L.P. at 2; Northern Border Pipeline Company at Appendix A; Publicly Traded Partnerships at 13-14.

liability on that public utility income. Given this important qualification, any pass-through entity seeking an income tax allowance in a specific rate proceeding must establish that its partners or members have an actual or potential income tax obligation on the entity's public utility income. To the extent that any of the partners or members do not have such an actual or potential income tax obligation, the amount of any income tax allowance will be reduced accordingly to reflect the weighted income tax liability of the entity's partners or members.<sup>27</sup>

33. In reaching this conclusion, the Commission expressly reverses the income tax allowance holdings of its earlier *Lakehead* orders. As stated in EEI's comments, *Lakehead* mistakenly focused on who pays the taxes rather than on the more fundamental cost allocation principle of what costs, including tax costs, are attributable to regulated service, and therefore properly included in a regulated cost of service.<sup>28</sup> Relying on *BP West Coast*, some commenters assert that because a pass-through entity pays no cash taxes itself, this results in a phantom tax on fictional public utility income. However, the comments summarized in sections A and D of Part II of this policy statement demonstrate that this assumption was incorrect. While the pass-through entity does not itself pay income taxes, the owners of a pass-through entity pay income taxes on the utility income generated by the assets they own via the device of the pass-through entity.<sup>29</sup> Therefore, the taxes paid by the owners of the pass-through entity are just as much a cost of acquiring and operating the assets of that entity as if the utility assets were owned by a

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<sup>27</sup> This is a technically complex issue that would be addressed in individual rate proceedings as suggested by EEI and WPPI.

<sup>28</sup> EEI comments at 8. In support of this point several commenters cite to *City of Charlottesville, supra*, note 12, for the proposition that a tax cost involves real taxes but not necessarily require that cash taxes be paid by the regulated entity. See EEI at 11-13; INGAA at 12-13; Joint Comments of the Interested Gas Pipeline Partnerships at 10-12; AOPL at 8-9.

<sup>29</sup> The comments and numerical examples submitted by the EEI, INGAA, and Northern Border demonstrate that under partnership law the partners, or members, of pass-through entities pay taxes on the public utility income of the operating entities that they control through the partnership or other pass-through entity. See EEI at 13-15; INGAA at 15-17; Northern Border at 5-8; Shell Pipeline Company LP at 4; and WPS Resources at 14-16.

corporation. The numerical examples discussed in sections A and D of Part II of this policy statement also establish that the return to the owners of pass-through entities will be reduced below that of a corporation investing in the same asset if such entities are not afforded an income tax allowance on their public utility income.<sup>30</sup>

34. As several commentators point out, a detailed discussion of the realities of partnership tax practice was not before the court when it reviewed the Opinion No. 435 orders. Because public utility income of pass-through entities is attributed directly to the owners of such entities and the owners have an actual or potential income tax liability on that income, the Commission concludes that its rationale here does not violate the court's concern that the Commission had created a tax allowance to compensate for an income tax cost that is not actually paid by the regulated utility. As explained in detail by the comments summarized in sections A and D of Part II of this order, the reality is that just as a corporation has an actual or potential income tax liability on income from the first tier public utility assets it controls, so do the owners of a partnership or LLC on the first tier assets and income that they control by means of the pass-through entity.

35. The first tier income involves the investors in the pass-through entity holding the specific physical assets that are generating the public utility income that results in a potential or actual income tax liability. In the case of Trans-Elect, this would be the investment that the partnership made in the upgrade to the Path 15 transmission line in California. As discussed in *Trans-Elect, supra*, the owners of Trans-Elect NTD Path 15, LLC, are a Subchapter C corporation (PG&E) and one LLC, Trans-Elect, LLC.<sup>31</sup> If no income tax allowance is permitted on Trans-Elect NTD Path 15's public utility income, the return to the investing entities would be less than if PG&E had invested directly in the line.

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<sup>30</sup> The record suggests that there is a substantial amount of existing investment at issue in this proceeding. See Duke Energy at 2 (75 percent of \$14.4 billion in energy infrastructure invested for the years 2001 through 2003 is in pass-through entities); Enbridge, Inc. at 4 (ownership interests in over 20,000 miles of crude oil, petroleum products, and natural gas pipelines); Enterprise Products Partners, L.P. at 1 (enterprise value of approximately \$14 billion); Kaye Anderson at 1 (in excess of \$1 billion in MLP equity); Publicly Traded Partnerships at 1-2, 13 (Figure 1 and text, market capitalization of publicly traded partnerships of \$47.3 billion in 2004), and at 14, table of publicly traded partnerships owning and operating energy pipelines (market capital \$38.5 billion.)

<sup>31</sup> *Trans-Elect, supra*, note 8, at PP 2-4. Trans-Elect develops merchant transmission lines. Trans-Elect comments at 1-2.

36. As set forth in the previously cited examples provided in the comments discussed in section D of Part II of this policy statement, termination of the allowance would clearly act as a disincentive for the use of the partnership format for two reasons. First is the difference in the nominal return itself. The second is that the income taxes paid by two corporations investing in this situation would increase because one or both would not be able to benefit from the tax advantages of a consolidated income tax return.<sup>32</sup> It should be noted that if such first tier assets are owned only by Subchapter C corporations, their rates would include an income tax allowance designed to recover the 35 percent maximum corporate marginal tax rate.<sup>33</sup> The same result obtains if the assets are owned by a partnership or an LLC that is in turn owned either by Subchapter C corporations or by individual investors.

37. Thus, the policy the Commission is adopting should not result in increased costs to public utility ratepayers, and may actually reduce them if a partnership or LLC has a lower weighted marginal tax rate and fewer administrative expenses than the normal corporate ownership form.<sup>34</sup> The Commission therefore concludes that, as is argued by the commentators urging an income tax allowance for all public utility entities, providing an income tax allowance to partnerships in proportion to the interests owned by entities or individuals with an actual or potential income tax liability does not create a phantom income tax liability. The fact that some partnerships or LLCs may be used for financial investments rather than for making infrastructure investments does not warrant a different

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<sup>32</sup> As discussed in the comments, if a Subchapter C corporation owns 80 percent or more of a subsidiary, there is no income tax paid by the subsidiary. All taxation is at the parent level through the use of a consolidated return. *See* Northern Border at 6-7 and 11-12; INGAA at 15-17.

<sup>33</sup> This analysis suggests that if partnerships and limited liability companies are not permitted to have an income tax allowance, there are strong incentives to shift to the taxable corporate ownership form. This could be done by converting a partnership to an LLC and then electing to have that entity taxed as a Subchapter C corporation. Once this was done, then the newly taxable entity, which would be operating the very same assets as it did as a pass-through entity, would be entitled to a 35 percent income tax allowance. *Cf.* AOPL at 9.

<sup>34</sup> As discussed in the WPPI and EEI comments, if a partnership or LLC has municipal governments as some of the partners or LLC members, the tax allowance is reduced because municipalities and their operating entities have no actual or potential income tax liability on utility income.

policy result here.<sup>35</sup> Moreover, the Commission emphasizes that the primary rationale for reaching the conclusion here is to recognize in the rates the actual or potential income tax liability ultimately attributable to regulated utility income. Having concluded that this will not result in phantom income taxes, it is then legitimate to conclude that the result here will facilitate important public utility investments such as that made by Trans-Elect NTD Path 15, LLC in the Path 15 upgrade.

38. In retrospect, it was the Commission's failure to distinguish between first and second tier income that lead to the double taxation rationale that the Commission incorrectly advanced in *Lakehead*. Dividends paid to the common stock investor and by the corporate investor in a pass-through entity are second tier income to such a common stock investor. As such, an income tax is paid by the investor in addition to the corporate tax that is due on the first tier income. In contrast, first tier income flows either to the

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<sup>35</sup> The partners of master limited partnerships have actual tax liability for any income recognized by the partnership. However, distributions may substantially exceed partnership book income. Such distributions do have an ultimate income tax liability depending on the status of the capital account of the individual partners. This matter can present complex allocation and timing issues that would be addressed in individual rate proceedings. However, a simple numerical example can illustrate the basic principles. For example, assume that an individual invests \$100 in a partnership and obtains a ten percent interest in that partnership. This establishes a partnership account (or basis) for the individual of \$100. During year one of that investment the partnership has \$100 in income before depreciation and depreciation of \$70. The partnership therefore has net income of \$30 and also makes a distribution of \$100. Since the individual partner owns ten percent of the partnership, that partner must declare \$3 in income on the individual's 1040 tax form, but does not pay taxes on the \$10 distribution made to that partner.

The capital account of the individual partner is adjusted as follows. Ten percent of the partnership income before depreciations (or \$10) is allocated to the individual partner and is added to that partner's account. Ten percent of the partnership depreciation, or \$7, is deducted from the account, as is the cash distribution. The individual's partnership account therefore stands at \$93 (\$100 + \$10 - \$10 - \$7). In year two the partnership income is zero and no distributions are made, so the individual's partnership account is unchanged. However, that individual partner sells the partnership interest for \$105. This difference is taxable as follows. Since \$7 of the sale price is a gain above the year 2 partnership account level of \$93, it will be taxed as income. This results in a tax on the cash that was distributed in the prior year but for which no income tax was paid at that time. Depending on the nature of the depreciation taken, the \$7 may be taxed as ordinary income through the operation of various recapture provisions. The additional \$5 is also income and is also taxed, most likely at the capital gains rate since it is gain in excess of the partner's original capital investment of \$100.

corporation, a corporate partner, or individual partners (or LLC members) and is taxed at that level. To the extent *Lakehead* either concluded or assumed that dividend payments and income, and partnership distributions and income, have the same ownership and income tax characteristics, this is simply incorrect as a matter of partnership and income tax law.<sup>36</sup> The court summarized this situation succinctly when it stated that presumably both corporate owners and individuals would pay taxes on public utility assets they control. Similarly, like a Subchapter C corporation, partners may have deductions or losses that offset the income from a specific public utility asset or which may neutralize the operating income from the asset itself. But this does not preclude such a corporation from obtaining an income tax allowance under the Commission's stand-alone doctrine.<sup>37</sup> Just as there are no rational grounds for granting an income tax allowance on partnership interests owned by a corporation and denying one to those owned by individuals, there are no rational grounds for reaching a different conclusion for the deductions and offsets for taxpaying partners or LLC members.

39. The Commission further concludes that the alternatives listed at the beginning of this Part III of this policy statement are not practical or are inconsistent with the court's remand. First the Commission agrees with the court's conclusion in *BP West Coast* that the Commission in *Lakehead* did not articulate a rational ground for concluding that there should be no tax allowance on partnership interests owned by individuals, but that there should be one for partnership interests owned by corporations. As the court stated, presumably individual partners pay taxes on their public utility income just as corporate partners pay income tax on theirs. The comments summarized in sections A and D of Parts II of this order affirm that common sense observation. The court's rejection of *Lakehead* likewise establishes why the Commission cannot simply limit income tax allowances to partnerships that are wholly owned by corporations, since doing so in effect denies a tax allowance to the partners of a partnership with no corporate ownership.

40. Similarly, there no rational reason to limit the income tax allowance to public utility income earned by a corporation. Public utility income controlled directly by an individual may also be taxed. The partnership entity is simply an intermediate ownership device that leads to the same tax result. Since both partners and Subchapter C corporations pay income taxes on their first tier income, the inconsistency that undermined *Lakehead* applies here as well. Finally, the comments rightly suggest that it would be difficult to establish rates based on a pre-tax rate of return. If the Commission were simply to raise the rates to equalize the pre-tax and after-tax returns, all this would do incorporate a presumed marginal income tax rate into the rate structure. The result is

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<sup>36</sup> See ATCLLC at 5.

<sup>37</sup> See *City of Charlottesville*, *supra*, note 12.

the same for the rate payer although the nominal rate of return is much higher. Moreover, most comparable securities trade on the basis of a corporation's after-tax return on its public utility income.<sup>38</sup> Thus, it would be hard to determine what the appropriate pre-tax return should be based on traded equities alone. Since it is impractical not to give an income tax allowance to any jurisdictional entities due to the problems of determining an appropriate pre-tax rate of return, the Commission again concludes that an income tax allowance should be afforded all jurisdictional entities, provided that the owners of pass-through entities have an actual or potential income tax liability.

41. There are three final points that should be discussed in addressing the effect of the court's remand. First, the court concluded that denying a partnership an allowance on the proportion of partnership interests owned by individuals would not prevent over-recovery by such individuals, since any tax savings would be distributed in proportion to all the partnership interests. The Commission recognizes that rate payers should not incur the expense of an income tax allowance to the extent that an owning partner or LLC member has no actual or potential income tax liability for the income generated by the interest it owns. As WPPI and ATCLLC explain, this can be avoided by limiting the income tax allowance to a blended rate that reflects the income tax status of the owning interest.<sup>39</sup> The use of the weighting approach assures that the rate payers will not be charged more than the actual tax cost the investors incur regardless of the ownership form. The problems of over- and under-recovering alluded to in the court's order can be addressed through the distribution provisions of the partnership agreement.<sup>40</sup>

42. Second, whether a particular partner or LCC member has an actual or potential income tax liability, and what assumptions, if any, should determine the amount of the related tax rate, are matters that should be resolved in individual rate proceedings. This is a fact specific issue for which the relative data is uniquely within the control of the regulated entity. Thus, any pass-through entity desiring an income tax allowance on utility operating income must be prepared to establish the tax status of its owners, or if there is more than one level of pass-through entities, where the ultimate tax liability lies and the character of the tax incurred. This could be done through determining the

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<sup>38</sup> As discussed, the investor then receives a dividend and pays a second tax on that income to determine the investor's after tax return. This is somewhat less than the return from a partnership interest that benefits from an income tax allowance.

<sup>39</sup> WPPI at 5-6 and 12-13; ATCLLC at 6.

<sup>40</sup> The court was concerned that the income tax allowance granted for corporate partners would increase the cash available for distribution to all partners, thus providing an increased return to the individual partners that the *Lakehead* doctrine was intended to prevent. Adjustments within the partnership agreement should assure that this does not result while preserving the incentives to establish flexible investment vehicles.

Docket No. PL05-5-000

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distribution of ownership interests at the end of the standard test year. Finally, some parties assert that this proceeding is tainted by *ex parte* communications that preceded the issuance of the Commission's December 2, 2004 notice of inquiry. These are without merit as the relevant communications were filed in the appropriate dockets and the Commission's notice of inquiry provided all interested parties an opportunity to comment. The decision here is based on the record developed by those comments.

The Commission orders:

The income tax allowance policy adopted in the body of this policy statement shall be applied in pending and future rate proceedings of public utilities subject to the Commission's rate jurisdiction.

By the Commission.

( S E A L )

Linda Mitry,  
Deputy Secretary.





Pima Utility Company

Water Division Schedules

**Schedules A through C,  
E through F, G and H**

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Schedule A-1  
Page 1  
Witness: Bourassa

Line  
No.

1	Fair Value Rate Base	\$	9,097,529
2			
3	Adjusted Operating Income		132,560
4			
5	Current Rate of Return		1.46%
6			
7	Required Operating Income	\$	861,536
8			
9	Required Rate of Return on Fair Value Rate Base		9.47%
10			
11	Operating Income Deficiency	\$	728,976
12			
13	Gross Revenue Conversion Factor		1.4041
14			
15	Increase in Gross Revenue		
16	Requirement	\$	1,023,565
17			
18	Adjusted Test Year Revenues	\$	1,977,627
19	Increase in Gross Revenue Revenue Requirement	\$	1,023,565
20	Proposed Revenue Requirement	\$	3,001,192
21	% Increase		51.76%

Customer Classification (Residential Commercial, Irrigation)	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
5/8x3/4 Inch Residential	\$ 1,274,912	\$ 1,795,627	\$ 520,715	40.84%
1 Inch Residential	116,781	169,973	53,192	45.55%
5/8x3/4 Inch Commercial	25,431	42,022	16,591	65.24%
3/4 Inch Commercial	1,819	3,038	1,218	66.98%
1 Inch Commercial	28,761	44,012	15,251	53.03%
1 1/2 Inch Commercial	10,567	15,582	5,015	47.45%
2 Inch Commercial	208,085	321,587	113,501	54.55%
Irrigation	317,458	607,847	290,390	91.47%
Revenue Annualization	(6,142)	(5,712)	430	-7.00%
<b>Subtotal</b>	<b>\$ 1,977,673</b>	<b>\$ 2,993,976</b>	<b>\$ 1,016,303</b>	<b>51.39%</b>
Other Water Revenues	7,261	7,261	-	0.00%
Reconciling Amount	(7,306)	(45)	7,261	-99.38%
Rounding		1	1	0.00%
<b>Total of Water Revenues</b>	<b>\$ 1,977,628</b>	<b>\$ 3,001,193</b>	<b>\$ 1,023,565</b>	<b>51.76%</b>

**SUPPORTING SCHEDULES:**

B-1  
C-1  
C-3  
H-1

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Summary of Results of Operations

Exhibit  
Schedule A-2  
Page 1  
Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2008	12/31/2009	Actual 12/31/2010	Adjusted 12/31/2010	Present Rates 12/31/2011	Proposed Rates 12/31/2011
1	Gross Revenues	\$ 2,046,412	\$ 2,054,451	\$ 1,983,769	\$ 1,977,627	\$ 1,977,627	\$ 3,001,192
2							
3	Revenue Deductions and	1,465,275	1,475,260	1,599,900	1,845,067	1,845,067	2,139,657
4	Operating Expenses						
5							
6	Operating Income	\$ 581,137	\$ 579,191	\$ 383,869	\$ 132,560	\$ 132,560	\$ 861,536
7							
8	Other Income and	143,440	120,631	47,024	47,024	47,024	47,024
9	Deductions						
10							
11	Interest Expense	-	-	-	(203,041)	(203,041)	(203,041)
12							
13	Net Income	\$ 724,577	\$ 699,821	\$ 430,893	\$ (23,457)	\$ (23,457)	\$ 705,518
14							
15	Earned Per Average						
16	Common Share	4.02	3.89	2.39	(0.13)	(0.13)	3.92
17							
18	Dividends Per						
19	Common Share	1.39	19.11	1.67	1.67	-	1.67
20							
21	Payout Ratio	0.35	4.92	0.70	(12.79)	(12.79)	0.43
22							
23	Return on Average						
24	Invested Capital	4.72%	4.94%	3.34%	-0.22%	-0.23%	6.87%
25							
26	Return on Year End						
27	Capital	4.66%	5.48%	3.31%	-0.22%	-0.24%	7.08%
28							
29	Return on Average						
30	Common Equity	4.99%	5.22%	3.56%	-0.20%	-0.19%	5.64%
31							
32	Return on Year End						
33	Common Equity	4.91%	5.82%	3.54%	-0.20%	-0.19%	5.48%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	-	-	-	0.75	0.75	5.72
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	-	-	-	2.12	2.12	4.47
41							
42							
43							
44							
45							
46	<u>SUPPORTING SCHEDULES</u>						
47	C-1						
48	E-2						
49	F-1						
50							

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Summary of Capital Structure

Exhibit  
Schedule A-3  
Page 1  
Witness: Bourassa

Line No.	Description:	Prior Years Ended		Test Year	Projected Year
		12/31/2008	12/31/2009	12/31/2010	12/31/2011
1					
2					
3	Short-Term Debt	-	-	-	-
4	Long-Term Debt	-	-	2,938,819 <sup>1</sup>	4,015,987 <sup>1</sup>
5					
6	Total Debt	\$ -	\$ -	\$ 2,938,819	\$ 4,015,987
7					
8					
9	Preferred Stock	-	-	-	-
10					
11	Common Equity	14,769,314	12,029,135	12,160,028	12,136,571
12					
13					
14	Total Capital & Debt	\$ 14,769,314	\$ 12,029,135	\$ 15,098,848	\$ 16,152,558
15					
16					
17	Capitalization Ratios:				
18					
19	Long-Term Debt	0.00%	0.00%	19.46%	24.86%
20					
21	Total Debt	0.00%	0.00%	19.46%	24.86%
22					
23					
24	Preferred Stock	-	-	-	-
25					
26	Common Equity	100.00%	100.00%	80.54%	75.14%
27					
28					
29	Total Capital	100.00%	100.00%	100.00%	100.00%
30					
31					
32	Weighted Cost of				
33	Senior Capital	0.00%	0.00%	1.50%	1.79%
34					
35					
36	<sup>1</sup> Allocated portion of long-term debt based upon consolidated capital structure				
37	and proposed rate base.				
38					
39					
40					
41					
42					
43					
44					
45	<u>SUPPORTING SCHEDULES:</u>				
46	E-1				
47	D-1				
48					
49					
50					

**Pima Utility Company**  
Test Year Ended December 31, 2010  
Summary of Consolidated Capital Structure

Exhibit  
Schedule A-3  
Page 2  
Witness: Bourassa

Line No.		Prior Years Ended		Test Year	Projected Year
	Description:	12/31/2008	12/31/2009	12/31/2010	12/31/2011
1					
2					
3	Short-Term Debt	-	-	-	-
4	Long-Term Debt	7,035,000	6,595,000	6,125,000	8,370,000
5					
6	Total Debt	\$ 7,035,000	\$ 6,595,000	\$ 6,125,000	\$ 8,370,000
7					
8					
9	Preferred Stock	-	-	-	-
10					
11	Common Equity	21,199,018	18,857,187	19,432,404	18,539,615
12					
13					
14	Total Capital & Debt	\$ 28,234,018	\$ 25,452,187	\$ 25,557,404	\$ 26,909,615
15					
16					
17	Capitalization Ratios:				
18					
19	Long-Term Debt	24.92%	25.91%	23.97%	31.10%
20					
21	Total Debt	24.92%	25.91%	23.97%	31.10%
22					
23					
24	Preferred Stock	-	-	-	-
25					
26	Common Equity	75.08%	74.09%	76.03%	68.90%
27					
28					
29	Total Capital	100.00%	100.00%	100.00%	100.00%
30					
31					
32	Weighted Cost of				
33	Senior Capital	1.92%	1.99%	1.84%	2.23%
34					
35					
36					
37					
38					
39					
40					
41					
42					
43					
44					
45	<u>SUPPORTING SCHEDULES:</u>				
46	E-1				
47	D-1				
48					
49					
50					

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Construction Expenditures  
and Gross Utility Plant in Service

Exhibit  
Schedule A-4  
Page 1  
Witness: Bourassa

<u>Line No.</u>		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
2				
3				
4	Prior Year Ended 12/31/2008	558,065	558,065	16,921,138
5				
6	Prior Year Ended 12/31/2009	506,824	506,824	17,427,962
7				
8	Test Year Ended 12/31/2010	476,612	476,612	17,904,574
9				
10	Projected Year Ended 12/31/2011	378,600	378,600	18,283,174
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34	<u>SUPPORTING SCHEDULES:</u>			
35	B-2			
36	E-5			
37	F-3			
38				
39				
40				

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Summary Statements of Cash Flows

Exhibit  
Schedule A-5  
Page 1  
Witness: Bourassa

Line

No.

	Prior Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2009</u>	Test Year Ended <u>12/31/2010</u>	Projected Year Present Rates <u>12/31/2011</u>	Projected Year Proposed Rates <u>12/31/2011</u>	
1						
2						
3						
4						
5	Cash Flows from Operating Activities					
6	Net Income	\$ 725,335	\$ 699,821	\$ 430,893	\$ (23,457)	\$ 705,518
7	Adjustments to reconcile net income to net cash					
8	provided by operating activities:					
9	Depreciation and Amortization	431,892	462,927	477,551	686,998	686,998
10	Other -Adjustments	(22,164)	(17,958)	(25,839)		
11	Changes in Certain Assets and Liabilities:					
12	Accounts Receivable	(7,236)	(9,609)	990		
13	Unbilled Revenues	-	-	-		
14	Materials and Supplies Inventory	-	-	-		
15	Prepaid Expenses	(6,509)	5,712	1,596		
16	Deferred Charges	-	-	-		
17	Notes Receivable	(247,711)	2,773,973	(152,632)		
18	Accounts Payable	(43,443)	37,964	116,845		
19	Intercompany payable	-	-	-		
20	Customer Meter Deposits	-	-	-		
21	Taxes Payable	452	357	2,039		
22	Other assets and liabilities	4,401	(18,959)	11,046		
23	Net Cash Flow provided by Operating Activities	<u>\$ 835,016</u>	<u>\$ 3,934,229</u>	<u>\$ 862,489</u>	<u>\$ 663,540</u>	<u>\$ 1,392,516</u>
24	Cash Flow From Investing Activities:					
25	Capital Expenditures	(558,065)	(506,824)	(476,612)	(378,600)	(378,600)
26	Plant Held for Future Use	-	-	-		
27	Changes in debt reserve fund	-	-	-		
28	Net Cash Flows from Investing Activities	<u>\$ (558,065)</u>	<u>\$ (506,824)</u>	<u>\$ (476,612)</u>	<u>\$ (378,600)</u>	<u>\$ (378,600)</u>
29	Cash Flow From Financing Activities					
30	Change in Restricted Cash	-	-	-		
31	Proceeds from Long-Term Debt	-	-	-		
32	Net receipt of contributions in aid of construction	-	-	-	-	-
33	Net receipts of advances in aid of construction	-	(38,951)	(10,401)	(10,401)	(10,401)
34	Repayments of Long-Term Debt	-	-	-	(842,062)	(842,062)
35	Distributions/Dividends Paid	(250,009)	(3,439,998)	(299,999)	(299,999)	(299,999)
36	Deferred Financing Costs	-	-	-	-	-
37	Paid in Capital	-	-	-	-	-
38	Net Cash Flows Provided by Financing Activities	<u>\$ (250,009)</u>	<u>\$ (3,478,949)</u>	<u>\$ (310,400)</u>	<u>\$ (1,152,462)</u>	<u>\$ (1,152,462)</u>
39	Increase(decrease) in Cash and Cash Equivalents	26,942	(51,544)	75,477	(867,521)	(138,546)
40	Cash and Cash Equivalents at Beginning of Year	117,261	144,203	92,659	168,136	168,136
41	Cash and Cash Equivalents at End of Year	<u>\$ 144,203</u>	<u>\$ 92,659</u>	<u>\$ 168,136</u>	<u>\$ (699,385)</u>	<u>\$ 29,590</u>

42

43

44

45

46 SUPPORTING SCHEDULES:

47 E-3

48 F-2

49

50



Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Summary of Rate Base

Exhibit  
Schedule B-1  
Page 1  
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 14,546,128	\$ 14,546,128
3	Less: Accumulated Depreciation	4,788,169	4,788,169
4			
5	Net Utility Plant in Service	\$ 9,757,959	\$ 9,757,959
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	374,236	374,236
9			
10	Contributions in Aid of Construction	632,418	632,418
11			
12	Accumulated Amortization of CIAC	(346,223)	(346,223)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16			
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	\$ 9,097,529	\$ 9,097,529
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Schedule B-2  
Page 1  
Witness: Bourassa

Line No.		Actual at End of <u>Test Year</u>	Proforma <u>Adjustment</u>	Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 17,904,574	(3,358,446)	\$ 14,546,128
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	5,945,021	(1,156,852)	4,788,169
7				
8				
9	Net Utility Plant			
10	in Service	\$ 11,959,553		\$ 9,757,959
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	374,236	-	374,236
15				
16	Contributions in Aid of			
17	Construction - Gross	632,418	(0)	632,418
18				
19	Accumulated Amortization of CIAC	(539,828)	193,605	(346,223)
20				
21	Customer Meter Deposits	-		-
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	<b>Plus:</b>			
27	Unamortized Finance			
28	Charges	-		-
29	Prepayments	-		-
30	Materials and Supplies	-		-
31	Working capital	-	-	-
32				-
33				
34	Total	<u>\$ 11,492,728</u>		<u>\$ 9,097,529</u>

**SUPPORTING SCHEDULES:**

B-2, pages 2

E-1

**RECAP SCHEDULES:**

B-1

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Schedule B-2  
Page 2  
Witness: Bourassa

Line No.		Actual at End of Test Year	1 Plant-in- Service	2 Accumulated Depreciation	Proforma Adjustments			Adjusted at end of Test Year
					3 CIAC	4 Intentionally Left Blank	5 Intentionally Left Blank	
1	Gross Utility							
2	Plant in Service	\$ 17,904,574	(3,358,446)					\$ 14,546,128
3								
4	Less:							
5	Accumulated							
6	Depreciation	5,945,021		(1,156,852)				4,788,169
7								
8								
9	Net Utility Plant							
10	in Service	\$ 11,959,553	\$ (3,358,446)	\$ 1,156,852	\$ -	\$ -	\$ -	\$ 9,757,959
11								
12	Less:							
13	Advances in Aid of							
14	Construction	374,236						374,236
15								
16	Contributions in Aid of							
17	Construction (CIAC)	632,418			(0)			632,418
18								
19	Accumulated Amort of CIAC	(539,828)			193,605			(346,223)
20								
21	Customer Meter Deposits	-						-
22	Accumulated Deferred Income Taxes	-						-
23								
24								
25	Plus:							
26	Unamortized Finance							
27	Charges	-						-
28	Prepayments	-						-
29	Materials and Supplies	-						-
30	Allowance for Cash Working Capital	-						-
31								
32	Total	\$ 11,492,728	\$ (3,358,446)	\$ 1,156,852	\$ (193,605)	\$ -	\$ -	\$ 9,097,529

SUPPORTING SCHEDULES:  
B-2, pages 3-5  
E-1

RECAP SCHEDULES:  
B-1

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1

Exhibit  
Schedule B-2  
Page 3  
Witness: Bourassa

Plant-in-Service									
Line No.			A	B	Adjustments C	D	E		
1									
2									
3									
4	Acct.	Actual	Reclassified	Reclassified		Decision 58743		Adjusted	
5	No.	Original	Plant to	Plant from	Retirement	Conforming	Plant	Original	
6	Description	Cost	Sewer Division	Sewer Division	Adjustments	Adjustment	Reclassification	Cost	
7	301 Organization Cost		-	-	-		-	-	
8	302 Franchise Cost		-	-	-		-	-	
9	303 Land and Land Rights	97,637	-	-	-		-	97,637	
10	304 Structures and Improvements	2,291,996	(246,883)	3,950	(6,400)		(1,727,538)	315,125	
11	305 Collecting and Impounding Res.		-	-	-		-	-	
12	306 Lake River and Other Intakes		-	-	-		-	-	
13	307 Wells and Springs	1,789,332	(972,509)	-	(43,942)		(166,182)	606,699	
14	308 Infiltration Galleries and Tunnels		-	-	-		-	-	
15	309 Supply Mains		-	-	-		-	-	
16	310 Power Generation Equipment		-	-	-		-	-	
17	311 Electric Pumping Equipment	829,942	(1,587,774)	-	(424,468)		3,446,101	2,263,801	
18	320 Water Treatment Equipment		-	-	-		-	-	
19	320.1 Water Treatment Plant		-	-	-		-	-	
20	320.2 Chemical Solution Feeders		(713)	-	(17,634)		76,602	58,255	
21	330 Dist. Reservoirs & Standpipe	2,707,572	-	-	-		(2,707,572)	-	
22	330.1 Storage tanks		-	-	(1,000)		1,103,197	1,102,197	
23	330.2 Pressure Tanks		-	-	(11,433)		85,370	73,937	
24	331 Trans. and Dist. Mains	3,056,451	-	9,148	-		(149,550)	2,916,048	
25	333 Services	4,498,820	(6,613)	-	-		216,941	4,709,148	
26	334 Meters	1,011,318	(5,144)	-	-		(82,972)	923,202	
27	335 Hydrants	891,614	-	-	(3,000)		(1,233)	887,381	
28	336 Backflow Prevention Devices		-	-	-		-	-	
29	339 Other Plant and Misc. Equip.		-	-	-		-	-	
30	340 Office Furniture and Fixtures	657,115	-	-	(1,687)		(651,188)	4,239	
31	340.1 Computers and Software		-	-	(5,014)		33,493	28,479	
32	341 Transportation Equipment		-	-	(18,572)		80,207	61,635	
33	342 Stores Equipment		-	-	-		-	-	
34	343 Tools and Work Equipment		(1,423)	2,305	(24,634)	15,121	143,137	134,506	
35	344 Laboratory Equipment		-	-	-		-	-	
36	345 Power Operated Equipment	59,539	-	-	-		65,360	124,899	
37	346 Communications Equipment	13,239	-	-	(10,126)		235,826	238,939	
38	347 Miscellaneous Equipment		-	-	-		-	-	
39	348 Other Tangible Plant		-	-	-		-	-	
40	TOTALS	\$ 17,904,574	\$ (2,821,059)	\$ 15,403	\$ (567,910)	\$ 15,121	\$ (0)	\$ 14,546,128	
41									
42	Plant-in-Service per Books							\$ 17,904,574	
43									
44	Increase (decrease) in Plant-in-Service							\$ (3,358,446)	
45									
46	Adjustment to Plant-in-Service							\$ (3,358,446)	
47									
48	SUPPORTING SCHEDULES								
49	Workpapers/B-2 Schedule - Pima Water.xlsx								
50	B-2, pages 3.1-3.19								

Pima Utility Company - Water Division  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.1  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Per Decision No. 58743 (1993 Account Numbers)				Current Books		Conform to Decision No. 58743		
				Company Plant at	Order Adopted	Order Plant at	Accum. Deprec. At	G/L Plant at	NARUC Plant at	Correction to Plant	Corrected Plant at	Accum. Deprec. At
				12/31/1992	Adjustments	12/31/1992	12/31/1992	12/31/1992	12/31/1992	Balance	12/31/1992	12/31/1992
1	301	Organization Cost	0.00%			-	-	-	-		-	-
2	302	Franchise Cost	0.00%			-	-	-	-		-	-
3	303	Land and Land Rights	0.00%	92,551		92,551		92,551	92,551		92,551	-
4	304	Structures & Improvements	3.00%	63,366		63,366		63,366	63,366		63,366	27,823
5	305	Collecting & Impounding Reservoirs	3.00%			-	-	-	-		-	-
6	306	Lake, River, Canal Intakes	3.00%			-	-	-	-		-	-
7	307	Wells & Springs	3.00%	153,447		153,447		153,447	153,447		153,447	67,375
8	308	Infiltration Galleries	3.00%			-	-	-	-		-	-
9	309	Raw Water Supply Mains	3.00%			-	-	-	-		-	-
10	310	Power Generation Equipment	3.00%			-	-	-	-		-	-
11	311	Pumping Equipment	3.00%	111,953		111,953		116,953	204,563		204,563	89,819
12	320	Water Treatment Equipment	3.00%			-	-	-	-		-	-
13	320.1	Water Treatment Plants	3.00%			-	-	-	-		-	-
14	320.2	Solution Chemical Feeders	3.00%			-	-	-	19,839		19,839	8,711
15	330	Distribution Reservoirs & Standpipes	3.00%	300,045	13,200	313,245		310,805	-		-	-
16	330.1	Storage Tanks	3.00%			-	-	-	215,634		215,634	94,681
17	330.2	Pressure Tanks	3.00%			-	-	-	10,000		10,000	4,391
18	331	Transmission & Distribution Mains	3.00%	1,080,106	2,640	1,082,746		1,082,746	1,100,025		1,100,025	482,998
19	333	Services	3.00%	521,965	5,280	527,245		521,965	527,245		527,245	231,502
20	334	Meters	3.00%	162,498		162,498		167,778	162,498		162,498	71,350
21	335	Hydrants	3.00%	425,810	2,640	428,450		428,450	428,450		428,450	188,123
22	336	Backflow Prevention Devices	3.00%			-	-	-	-		-	-
23	339	Other Plant & Misc Equipment	3.00%			-	-	-	-		-	-
24	340	Office Furniture & Equipment	3.00%		2,640	2,640		84,981	2,640		2,640	1,159
25	340.1	Computers & Software	3.00%			-	-	-	-		-	-
26	341	Transportation Equipment	3.00%	34,947		34,947		-	14,826		14,826	6,510
27	342	Stores Equipment	3.00%			-	-	-	-		-	-
28	343	Tools, Shop & Garage Equipment	3.00%	64,874		64,874		-	26,196	15,121	41,317	18,141
29	344	Laboratory Equipment	3.00%			-	-	-	-		-	-
30	345	Power Operated Equipment	3.00%			-	-	-	-		-	-
31	346	Communication Equipment	3.00%			-	-	-	1,561		1,561	686
32	347	Miscellaneous Equipment	3.00%			-	-	-	-		-	-
33	348	Other Tangible Plant	3.00%			-	-	-	-		-	-
34		Const. Work in Progress		147,000	(147,000)	-		-	-		-	-
35												
36		TOTALS		3,158,562	(120,600)	3,037,962	1,293,269	3,022,841	3,022,841	15,121	3,037,962	1,293,269

Pima Utility Company - Water Division  
Plant Additions and Retirements

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NARUC Account			Allowed Deprec. Rate	1993									
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	92,551	-
4	304	Structures & Improvements	3.00%	-	-	-	-	-	-	-	1,901	63,366	29,724
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	-	-	-	-	-	-	-	4,603	153,447	71,978
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	-	-	-	-	-	-	-	6,137	204,563	95,956
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	-	-	-	-	-	-	-	595	19,839	9,306
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	6,469	215,634	101,150
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	300	10,000	4,691
18	331	Transmission & Distribution Mains	3.00%	-	-	-	-	-	-	-	33,001	1,100,025	515,999
19	333	Services	3.00%	-	-	-	-	-	-	-	15,817	527,245	247,319
20	334	Meters	3.00%	8,444	-	8,444	-	-	-	-	5,002	170,942	76,352
21	335	Hydrants	3.00%	-	-	-	-	-	-	-	12,853	428,450	200,976
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	79	2,640	1,238
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	3.00%	9,759	-	9,759	-	-	-	-	591	24,585	7,101
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	-	-	-	-	7,700	7,700	-	1,124	33,617	11,565
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	3.00%	-	-	-	-	-	-	-	47	1,561	733
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		18,202	-	18,202	-	7,700	7,700	-	88,520	3,048,464	1,374,089

Pima Utility Company - Water Division  
Plant Additions and Retirements

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			1994										
Line	NARUC		Allowed	Plant		Adjusted	Plant		Adjusted				
No.	Account	Description	Deprec.	Additions	Plant	Plant	Retirements	Retirement	Plant	Salvage	Depreciation	Plant	Accum.
No.	No.		Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	92,551	-
4	304	Structures & Improvements	3.00%	-	-	-	-	-	-	-	1,901	63,366	31,625
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	-	-	-	-	-	-	-	4,603	153,447	76,582
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	68,234	(10,847)	57,388	-	5,672	5,672	-	6,913	256,278	97,197
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	-	-	-	-	3,439	3,439	-	544	16,400	6,411
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	6,469	215,634	107,619
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	300	10,000	4,991
18	331	Transmission & Distribution Mains	3.00%	96,895	-	96,895	-	-	-	-	34,454	1,196,920	550,453
19	333	Services	3.00%	-	-	-	-	-	-	-	15,817	527,245	263,137
20	334	Meters	3.00%	39,118	-	39,118	-	-	-	-	5,715	210,060	82,067
21	335	Hydrants	3.00%	14,400	-	14,400	-	-	-	-	13,069	442,850	214,046
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	79	2,640	1,317
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	3.00%	-	-	-	-	-	-	-	738	24,585	7,839
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	22,414	-	22,414	-	-	-	-	1,345	56,031	12,910
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	3.00%	1,649	-	1,649	-	-	-	-	72	3,210	804
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		242,710	(10,847)	231,863	-	9,111	9,111	-	92,019	3,271,216	1,456,997

Pima Utility Company - Water Division  
Plant Additions and Retirements

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			1995										
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant	Adjusted Plant	Plant Retirements	Retirement	Adjusted Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	5,086	-	5,086	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	95,415	-	95,415	-	-	-	-	3,332	158,781	34,957
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	205,071	-	205,071	-	-	-	-	7,679	358,517	84,261
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	531,947	(16,125)	515,822	-	22,955	22,955	-	15,081	749,145	89,323
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	8,948	-	8,948	-	-	-	-	626	25,348	7,037
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	211,912	-	211,912	-	-	-	-	9,648	427,546	117,267
17	330.2	Pressure Tanks	3.00%	40,924	-	40,924	-	-	-	-	914	50,924	5,905
18	331	Transmission & Distribution Mains	3.00%	117,738	-	117,738	-	-	-	-	37,674	1,314,658	588,127
19	333	Services	3.00%	42,162	-	42,162	-	-	-	-	16,450	569,407	279,586
20	334	Meters	3.00%	16,795	-	16,795	-	-	-	-	6,554	226,855	88,620
21	335	Hydrants	3.00%	34,000	-	34,000	-	-	-	-	13,795	476,850	227,841
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	79	2,640	1,397
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	3.00%	-	-	-	-	-	-	-	738	24,585	8,576
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	954	-	954	-	-	-	-	1,695	56,985	14,605
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	3.00%	-	-	-	-	-	-	-	96	3,210	901
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		1,310,951	(16,125)	1,294,827	-	22,955	22,955	-	114,362	4,543,088	1,548,403



Pima Utility Company - Water Division  
Plant Additions and Retirements

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			1996										
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant	Adjusted Plant	Plant Retirements	Retirement	Adjusted Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	10,033	-	10,033	-	-	-	-	4,914	168,814	39,871
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	5,895	-	5,895	-	-	-	-	10,844	364,412	95,105
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	64,372	(9,461)	54,911	-	-	-	-	23,298	804,056	112,621
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	-	-	-	-	-	-	-	760	25,348	7,797
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	1,520	-	1,520	-	-	-	-	12,849	429,066	130,116
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	1,528	50,924	7,433
18	331	Transmission & Distribution Mains	3.00%	70,621	-	70,621	-	-	-	-	40,499	1,385,279	628,626
19	333	Services	3.00%	28,729	-	28,729	-	-	-	-	17,513	598,136	297,100
20	334	Meters	3.00%	50,337	-	50,337	-	-	-	-	7,561	277,192	96,181
21	335	Hydrants	3.00%	11,550	-	11,550	-	-	-	-	14,479	488,400	242,320
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	79	2,640	1,476
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	3.00%	8,000	-	8,000	-	-	-	-	858	32,585	9,434
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	4,211	(1,423)	2,787	-	-	-	-	1,751	59,772	16,356
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	2,125	-	2,125	-	-	-	-	32	2,125	32
31	346	Communication Equipment	3.00%	-	-	-	-	-	-	-	96	3,210	997
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		257,393	(10,884)	246,509	-	-	-	-	137,061	4,789,597	1,685,464

Pima Utility Company - Water Division  
Plant Additions and Retirements

Exhibit  
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			1997										
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.	Description	Rate	(Per Books)			(Per Books)						
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	-	-	-	-	-	-	-	5,064	168,814	44,936
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	-	-	-	-	-	-	-	10,932	364,412	106,038
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	75,492	-	75,492	-	52,540	52,540	-	24,466	827,008	84,547
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	-	-	-	-	-	-	-	760	25,348	8,558
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	12,872	429,066	142,988
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	1,528	50,924	8,960
18	331	Transmission & Distribution Mains	3.00%	263,564	-	263,564	-	-	-	-	45,512	1,648,843	674,137
19	333	Services	3.00%	117,056	-	117,056	-	-	-	-	19,700	715,192	316,800
20	334	Meters	3.00%	35,468	-	35,468	-	-	-	-	8,848	312,660	105,029
21	335	Hydrants	3.00%	58,630	-	58,630	-	-	-	-	15,531	547,030	257,852
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	79	2,640	1,555
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	3.00%	17,108	-	17,108	-	-	-	-	1,234	49,693	10,668
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	928	-	928	-	-	-	-	1,807	60,700	18,163
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	64	2,125	96
31	346	Communication Equipment	3.00%	99,380	-	99,380	-	-	-	-	1,587	102,591	2,584
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		667,626	-	667,626	-	52,540	52,540	-	149,985	5,404,683	1,782,910

Pima Utility Company - Water Division  
Plant Additions and Retirements

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Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1998								Plant Balance	Accum. Deprec.
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)		
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	218,067	(200,000)	18,067	-	-	-	-	5,335	186,881	50,271
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	500,000	(500,000)	-	-	17,772	17,772	-	10,666	346,640	98,931
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	876,040	(838,888)	37,153	-	1,453	1,453	-	25,346	862,708	108,440
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	1,163	-	1,163	-	-	-	-	778	26,511	9,336
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	12,872	429,066	155,860
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	1,528	50,924	10,488
18	331	Transmission & Distribution Mains	3.00%	17,011	-	17,011	-	-	-	-	49,720	1,665,854	723,856
19	333	Services	3.00%	37,577	-	37,577	-	-	-	-	22,019	752,769	338,819
20	334	Meters	3.00%	31,733	-	31,733	-	-	-	-	9,856	344,393	114,885
21	335	Hydrants	3.00%	-	-	-	-	-	-	-	16,411	547,030	274,263
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	79	2,640	1,634
25	340.1	Computers & Software	3.00%	866	-	866	-	-	-	-	13	866	13
26	341	Transportation Equipment	3.00%	14,132	-	14,132	13,223	-	13,223	-	1,504	50,602	(1,051)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	2,868	-	2,868	-	-	-	-	1,864	63,568	20,027
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	2,226	-	2,226	-	-	-	-	97	4,352	193
31	346	Communication Equipment	3.00%	101,552	-	101,552	-	-	-	-	4,601	204,142	7,185
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress		-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		1,803,236	(1,538,888)	264,348	13,223	19,225	32,448	-	162,690	5,636,583	1,913,151

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Plant Additions and Retirements

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			1999										
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.	Description	Rate	(Per Books)			(Per Books)						
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	-	-	-	-	-	-	-	5,606	186,881	55,877
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	-	-	-	-	-	-	-	10,399	346,640	109,331
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	196,797	(82,615)	114,183	-	5,250	5,250	-	27,515	971,641	130,705
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	2,825	-	2,825	-	-	-	-	838	29,336	10,173
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	12,872	429,066	168,732
17	330.2	Pressure Tanks	3.00%	957	-	957	-	-	-	-	1,542	51,881	12,030
18	331	Transmission & Distribution Mains	3.00%	327,584	-	327,584	-	-	-	-	54,889	1,993,437	778,747
19	333	Services	3.00%	86,486	-	86,486	-	-	-	-	23,880	839,255	362,699
20	334	Meters	3.00%	42,708	-	42,708	-	-	-	-	10,972	387,101	125,857
21	335	Hydrants	3.00%	65,970	-	65,970	-	-	-	-	17,400	613,000	291,663
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	79	2,640	1,713
25	340.1	Computers & Software	3.00%	4,148	-	4,148	-	-	-	-	88	5,015	101
26	341	Transportation Equipment	3.00%	1,855	-	1,855	-	-	-	-	1,546	52,457	495
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	4,595	-	4,595	-	-	-	-	1,976	68,163	22,003
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	623	-	623	-	-	-	-	140	4,974	333
31	346	Communication Equipment	3.00%	3,986	-	3,986	-	-	-	-	6,184	208,129	13,369
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress		-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		738,535	(82,615)	655,920	-	5,250	5,250	-	175,928	6,287,253	2,083,829

NARUC			Allowed Deprec. Rate	2000									
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	73,854	-	73,854	-	-	-	-	6,714	260,735	62,592
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	191,797	-	191,797	-	10,713	10,713	-	13,115	527,724	111,733
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	605,426	(20,717)	584,708	-	45,099	45,099	-	37,243	1,511,250	122,849
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	2,707	-	2,707	-	1,388	1,388	-	900	30,655	9,685
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	522,695	-	522,695	-	-	-	-	20,712	951,761	189,444
17	330.2	Pressure Tanks	3.00%	30,624	-	30,624	-	10,000	10,000	-	1,866	72,505	3,896
18	331	Transmission & Distribution Mains	3.00%	3,631	-	3,631	-	-	-	-	59,858	1,997,069	838,605
19	333	Services	3.00%	504,769	-	504,769	105,370	-	105,370	-	31,169	1,238,654	288,498
20	334	Meters	3.00%	68,383	-	68,383	-	-	-	-	12,639	455,484	138,496
21	335	Hydrants	3.00%	-	-	-	-	-	-	-	18,390	613,000	310,053
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	1,483	-	1,483	-	-	-	-	101	4,123	1,815
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	150	5,015	252
26	341	Transportation Equipment	3.00%	17,787	-	17,787	-	-	-	-	1,841	70,244	2,335
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	-	-	-	-	2,056	2,056	-	2,014	66,107	21,961
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	52,116	-	52,116	-	-	-	-	931	57,091	1,264
31	346	Communication Equipment	3.00%	3,464	-	3,464	-	-	-	-	6,296	211,592	19,665
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress		-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		2,078,734	(20,717)	2,058,017	105,370	69,256	174,626	-	213,939	8,170,644	2,123,143

			2001										
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant	Adjusted Plant	Plant Retirements	Retirement	Adjusted Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	-	-	-	-	-	-	-	7,822	260,735	70,414
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	5,438	(5,438)	-	-	-	-	-	15,832	527,724	127,565
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	95,274	(47,141)	48,134	-	500	500	-	46,052	1,558,883	168,401
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	713	(713)	-	-	-	-	-	920	30,655	10,605
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	28,553	951,761	217,997
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	2,175	72,505	6,071
18	331	Transmission & Distribution Mains	3.00%	-	-	-	-	-	-	-	59,912	1,997,069	898,517
19	333	Services	3.00%	740,222	-	740,222	117,178	-	117,178	-	46,505	1,861,698	217,825
20	334	Meters	3.00%	83,430	-	83,430	-	-	-	-	14,916	538,914	153,412
21	335	Hydrants	3.00%	-	-	-	-	-	-	-	18,390	613,000	328,443
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	124	4,123	1,939
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	150	5,015	402
26	341	Transportation Equipment	3.00%	2,907	-	2,907	-	-	-	-	2,151	73,150	4,486
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	16,665	-	16,665	-	-	-	-	2,233	82,771	24,195
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	53,455	-	53,455	-	-	-	-	2,515	110,546	3,778
31	346	Communication Equipment	3.00%	3,844	-	3,844	-	-	-	-	6,405	215,437	26,070
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		1,001,949	(53,292)	948,657	117,178	500	117,678	-	254,655	9,001,623	2,260,120

			2002										
Line	NARUC Account		Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.	Description											
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	1,500	-	1,500	-	-	-	-	7,845	262,235	78,258
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	287,579	(287,579)	-	-	-	-	-	15,832	527,724	143,396
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	92,280	(16,178)	76,103	-	27,211	27,211	-	47,500	1,607,775	188,690
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	-	-	-	-	-	-	-	920	30,655	11,525
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	6,814	-	6,814	-	-	-	-	28,655	958,575	246,652
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	2,175	72,505	8,246
18	331	Transmission & Distribution Mains	3.00%	230,254	-	230,254	-	-	-	-	63,366	2,227,323	961,883
19	333	Services	3.00%	574,324	-	574,324	71,094	-	71,094	-	63,399	2,364,928	210,131
20	334	Meters	3.00%	61,979	-	61,979	-	-	-	-	17,097	600,893	170,509
21	335	Hydrants	3.00%	89,449	-	89,449	-	2,000	2,000	-	19,702	700,449	346,145
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	124	4,123	2,062
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	150	5,015	553
26	341	Transportation Equipment	3.00%	61,853	-	61,853	60,613	2,179	62,792	38,000	2,180	72,211	(18,125)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	1,572	-	1,572	-	-	-	-	2,507	84,343	26,701
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	3,316	110,546	7,095
31	346	Communication Equipment	3.00%	2,144	-	2,144	-	6,976	6,976	-	6,391	210,604	25,485
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress		-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		1,409,747	(303,756)	1,105,991	131,707	38,366	170,073	38,000	281,158	9,937,541	2,409,205

Pima Utility Company - Water Division  
Plant Additions and Retirements

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			2003										
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.	Description	Rate	(Per Books)			(Per Books)						
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	6,520	(2,570)	3,950	-	-	-	-	7,926	266,185	86,185
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	-	-	-	-	-	-	-	15,832	527,724	159,228
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	132,687	(34,500)	98,188	-	47,250	47,250	-	48,997	1,658,713	190,437
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	1,987	-	1,987	-	-	-	-	949	32,642	12,474
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	1,000	1,000	-	28,742	957,575	274,394
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	2,175	72,505	10,421
18	331	Transmission & Distribution Mains	3.00%	290,233	-	290,233	-	-	-	-	71,173	2,517,556	1,033,056
19	333	Services	3.00%	435,687	-	435,687	49,692	-	49,692	-	76,738	2,750,923	237,176
20	334	Meters	3.00%	64,897	-	64,897	-	-	-	-	19,000	665,790	189,509
21	335	Hydrants	3.00%	120,601	-	120,601	-	500	500	-	22,815	820,550	368,460
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	124	4,123	2,186
25	340.1	Computers & Software	3.00%	2,631	-	2,631	-	-	-	-	190	7,646	742
26	341	Transportation Equipment	3.00%	24,945	-	24,945	2,000	5,533	7,533	-	2,428	89,623	(23,231)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	2,337	-	2,337	-	928	928	-	2,551	85,752	28,325
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	3,316	110,546	10,411
31	346	Communication Equipment	3.00%	4,287	-	4,287	-	-	-	-	6,382	214,891	31,867
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress		-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		1,086,811	(37,070)	1,049,742	51,692	55,211	106,903	-	309,340	10,880,380	2,611,642



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Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2004								Plant Balance	Accum. Deprec.
				Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)		
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	5,091	-	5,091	-	2,600	2,600	-	8,023	268,677	91,608
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	-	-	-	-	-	-	-	15,832	527,724	175,060
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	64,740	(24,716)	40,024	-	11,686	11,686	-	50,186	1,687,051	228,938
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	14,326	-	14,326	-	1,319	1,319	-	1,174	45,649	12,329
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	28,727	957,575	303,122
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	2,175	72,505	12,597
18	331	Transmission & Distribution Mains	3.00%	27,203	-	27,203	-	-	-	-	75,935	2,544,759	1,108,991
19	333	Services	3.00%	332,191	-	332,191	35,998	-	35,998	-	86,971	3,047,116	288,149
20	334	Meters	3.00%	50,270	-	50,270	-	-	-	-	20,728	716,060	210,237
21	335	Hydrants	3.00%	8,282	-	8,282	-	500	500	-	24,733	828,332	392,693
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	1,500	-	1,500	-	-	-	-	146	5,623	2,332
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	229	7,646	972
26	341	Transportation Equipment	3.00%	11,372	-	11,372	16,536	2,431	18,967	9,425	2,575	82,027	(30,198)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	1,964	-	1,964	-	-	-	-	2,602	87,716	30,927
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	3,316	110,546	13,727
31	346	Communication Equipment	3.00%	9,716	-	9,716	-	-	-	-	6,592	224,607	38,460
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress		-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		526,656	(24,716)	501,939	52,534	18,536	71,070	9,425	329,945	11,311,249	2,879,942

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Plant Additions and Retirements

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			2005										
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant	Adjusted Plant	Plant Retirements	Retirement	Adjusted Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	-	-	-	-	-	-	-	8,060	268,677	99,668
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	33,092	-	33,092	-	15,457	15,457	-	16,096	545,359	175,699
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	83,364	(71,431)	11,933	-	-	-	-	50,791	1,698,984	279,728
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	4,531	-	4,531	-	5,988	5,988	-	1,348	44,192	7,689
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	28,727	957,575	331,849
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	2,175	72,505	14,772
18	331	Transmission & Distribution Mains	3.00%	344,940	-	344,940	-	-	-	-	81,517	2,889,700	1,190,508
19	333	Services	3.00%	472,257	-	472,257	37,474	-	37,474	-	97,935	3,481,899	348,610
20	334	Meters	3.00%	79,639	-	79,639	-	-	-	-	22,676	795,699	232,913
21	335	Hydrants	3.00%	43,480	-	43,480	-	-	-	-	25,502	871,811	418,195
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	169	5,623	2,501
25	340.1	Computers & Software	3.00%	15,827	-	15,827	-	-	-	-	467	23,473	1,439
26	341	Transportation Equipment	3.00%	750	-	750	-	7,521	7,521	-	2,359	75,256	(35,360)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	1,200	-	1,200	-	-	-	-	2,649	88,916	33,576
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	3,316	110,546	17,044
31	346	Communication Equipment	3.00%	-	-	-	-	-	-	-	6,738	224,607	45,198
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		1,079,081	(71,431)	1,007,650	37,474	28,966	66,440	-	350,527	12,252,458	3,164,028

Pima Utility Company - Water Division  
Plant Additions and Retirements

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			2006										
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant	Adjusted Plant	Plant Retirements	Retirement	Adjusted Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description	Rate	(Per Books)	Adjustments	Additions	(Per Books)	Adjustments	Retirements	A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	-	-	-	-	-	-	-	8,060	268,677	107,728
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	-	-	-	-	-	-	-	16,361	545,359	192,060
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	89,679	(58,153)	31,527	-	6,714	6,714	-	51,342	1,723,797	324,356
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	6,347	-	6,347	-	-	-	-	1,421	50,539	9,110
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	28,727	957,575	360,576
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	2,175	72,505	16,947
18	331	Transmission & Distribution Mains	3.00%	-	-	-	-	-	-	-	86,691	2,889,700	1,277,199
19	333	Services	3.00%	357,742	-	357,742	29,274	-	29,274	-	109,384	3,810,367	428,720
20	334	Meters	3.00%	34,416	(3,089)	31,329	-	-	-	-	24,341	827,028	257,254
21	335	Hydrants	3.00%	-	-	-	-	-	-	-	26,154	871,811	444,349
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	169	5,623	2,669
25	340.1	Computers & Software	3.00%	431	-	431	-	-	-	-	711	23,903	2,149
26	341	Transportation Equipment	3.00%	-	-	-	-	908	908	-	2,244	74,348	(34,024)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	-	-	-	-	8,050	8,050	-	2,547	80,866	28,073
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	3,316	110,546	20,360
31	346	Communication Equipment	3.00%	4,243	-	4,243	-	3,150	3,150	-	6,755	225,700	48,803
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress		-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		492,861	(61,242)	431,619	29,274	18,822	48,096	-	370,397	12,635,981	3,486,330

			2007										
Line	NARUC Account		Allowed	Plant	Plant	Adjusted	Plant		Adjusted				
No.	No.	Description	Deprec. Rate	Additions (Per Books)	Adjustments	Plant Additions	Retirements (Per Books)	Adjustments	Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	-	-	-	-	-	-	-	8,060	268,677	115,788
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	-	-	-	-	-	-	-	16,361	545,359	208,421
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	272,215	(21,213)	251,002	-	43,805	43,805	-	54,822	1,930,993	335,373
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	-	-	-	-	-	-	-	1,516	50,539	10,626
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	136,912	-	136,912	-	-	-	-	30,781	1,094,487	391,357
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	2,175	72,505	19,122
18	331	Transmission & Distribution Mains	3.00%	1,879	-	1,879	-	-	-	-	86,719	2,891,578	1,363,918
19	333	Services	3.00%	275,451	-	275,451	23,698	-	23,698	-	118,087	4,062,120	523,109
20	334	Meters	3.00%	19,990	-	19,990	-	-	-	-	25,111	847,018	282,365
21	335	Hydrants	3.00%	-	-	-	-	-	-	-	26,154	871,811	470,504
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	204	-	204	-	-	-	-	172	5,826	2,841
25	340.1	Computers & Software	3.00%	3,082	-	3,082	-	-	-	-	763	26,985	2,913
26	341	Transportation Equipment	3.00%	14,300	-	14,300	21,162	-	21,162	1,851	2,128	67,486	(51,208)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	-	-	-	-	5,900	5,900	-	2,337	74,966	24,510
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	3,316	110,546	23,676
31	346	Communication Equipment	3.00%	-	-	-	-	-	-	-	6,771	225,700	55,574
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress		-	-	-	-	-	-	-	-	-	-
35													
36		TOTALS		724,033	(21,213)	702,819	44,860	49,705	94,565	1,851	385,274	13,244,236	3,778,890

Pima Utility Company - Water Division  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.17  
Witness: Jones/Bourassa

			2008										
Line	NARUC Account		Allowed Deprec.	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.	Description	Rate	(Per Books)			(Per Books)						
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	83,986	(44,313)	39,673	-	-	-	-	8,655	308,350	124,444
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	229,783	(179,493)	50,290	-	-	-	-	17,115	595,649	225,536
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	375,212	(262,374)	112,838	-	15,295	15,295	-	59,393	2,028,536	379,471
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	5,165	-	5,165	-	3,500	3,500	-	1,541	52,205	8,667
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	32,835	1,094,487	424,192
17	330.2	Pressure Tanks	3.00%	-	-	-	-	-	-	-	2,175	72,505	21,297
18	331	Transmission & Distribution Mains	3.00%	20,188	-	20,188	-	-	-	-	87,050	2,911,766	1,450,968
19	333	Services	3.00%	293,123	(6,613)	286,510	20,664	-	20,664	-	125,851	4,327,966	628,297
20	334	Meters	3.00%	20,720	(2,055)	18,666	-	-	-	-	25,691	865,684	308,055
21	335	Hydrants	3.00%	15,570	-	15,570	-	-	-	-	26,388	887,381	496,892
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	1,600	-	1,600	1,500	-	1,500	-	176	5,926	1,517
25	340.1	Computers & Software	3.00%	-	-	-	-	-	-	-	810	26,985	3,722
26	341	Transportation Equipment	3.00%	-	-	-	-	-	-	-	2,025	67,486	(49,183)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	35,000	-	35,000	-	-	-	-	2,774	109,966	27,284
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	-	-	-	-	-	-	-	3,316	110,546	26,993
31	346	Communication Equipment	3.00%	-	-	-	-	-	-	-	6,771	225,700	62,345
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		1,080,346	(494,847)	585,499	22,164	18,795	40,959	-	402,566	13,788,776	4,140,497

Pima Utility Company - Water Division  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.18  
Witness: Jones/Bourassa

			2009										
Line	NARUC Account		Allowed	Plant	Adjusted	Plant		Adjusted		Depreciation	Plant	Accum.	
No.	No.	Description	Deprec. Rate	Additions (Per Books)	Plant Adjustments	Plant Additions	Retirements (Per Books)	Retirement Adjustments	Plant Retirements	Salvage A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	10,576	-	10,576	-	3,800	3,800	-	9,352	315,125	129,996
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	-	-	-	-	-	-	-	17,869	595,649	243,405
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	226,802	(21,325)	205,476	-	61,631	61,631	-	63,014	2,172,382	380,854
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	-	-	-	-	-	-	-	1,566	52,205	10,233
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	7,710	-	7,710	-	-	-	-	32,950	1,102,197	457,142
17	330.2	Pressure Tanks	3.00%	1,431	-	1,431	-	-	-	-	2,197	73,937	23,494
18	331	Transmission & Distribution Mains	3.00%	4,282	-	4,282	-	-	-	-	87,417	2,916,048	1,538,385
19	333	Services	3.00%	220,238	-	220,238	17,958	-	17,958	-	132,873	4,530,246	743,212
20	334	Meters	3.00%	27,743	-	27,743	-	-	-	-	26,387	893,426	334,442
21	335	Hydrants	3.00%	-	-	-	-	-	-	-	26,621	887,381	523,513
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	1,687	1,687	-	152	4,239	(17)
25	340.1	Computers & Software	3.00%	2,641	-	2,641	-	5,014	5,014	-	774	24,613	(518)
26	341	Transportation Equipment	3.00%	-	-	-	-	-	-	-	2,025	67,486	(47,158)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	-	-	-	-	-	-	-	3,299	109,966	30,583
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	9,115	-	9,115	-	-	-	-	3,453	119,660	30,446
31	346	Communication Equipment	3.00%	13,239	-	13,239	-	-	-	-	6,970	238,939	69,314
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		523,776	(21,325)	502,451	17,958	72,132	90,090	-	416,920	14,201,137	4,467,326

Pima Utility Company - Water Division  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.19  
Witness: Jones/Bourassa

			2010										
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	97,637	-
4	304	Structures & Improvements	3.00%	-	-	-	-	-	-	-	9,454	315,125	139,450
5	305	Collecting & Impounding Reservoirs	3.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	3.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.00%	11,050	-	11,050	-	-	-	-	18,035	606,699	261,440
8	308	Infiltration Galleries	3.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	3.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.00%	220,917	(52,091)	168,826	-	77,407	77,407	-	66,543	2,263,801	369,989
12	320	Water Treatment Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	3.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	3.00%	8,051	-	8,051	-	2,000	2,000	-	1,657	58,255	9,890
15	330	Distribution Reservoirs & Standpipes	3.00%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	3.00%	-	-	-	-	-	-	-	33,066	1,102,197	490,208
17	330.2	Pressure Tanks	3.00%	1,433	-	1,433	-	1,433	1,433	-	2,218	73,937	24,279
18	331	Transmission & Distribution Mains	3.00%	-	-	-	-	-	-	-	87,481	2,916,048	1,625,867
19	333	Services	3.00%	199,648	-	199,648	20,746	-	20,746	-	138,591	4,709,148	861,057
20	334	Meters	3.00%	29,776	-	29,776	-	-	-	-	27,249	923,202	361,692
21	335	Hydrants	3.00%	-	-	-	-	-	-	-	26,621	887,381	550,134
22	336	Backflow Prevention Devices	3.00%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	3.00%	-	-	-	-	-	-	-	127	4,239	110
25	340.1	Computers & Software	3.00%	3,867	-	3,867	-	-	-	-	796	28,479	278
26	341	Transportation Equipment	3.00%	-	-	-	5,851	-	5,851	-	1,937	61,635	(51,073)
27	342	Stores Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	3.00%	24,539	-	24,539	-	-	-	-	3,667	134,506	34,251
29	344	Laboratory Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	3.00%	5,239	-	5,239	-	-	-	-	3,668	124,899	34,114
31	346	Communication Equipment	3.00%	-	-	-	-	-	-	-	7,168	238,939	76,482
32	347	Miscellaneous Equipment	3.00%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-
34		Const. Work in Progress											
35													
36		TOTALS		504,520	(52,091)	452,429	26,597	80,840	107,437	-	428,280	14,546,128	4,788,169

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2

Exhibit  
Schedule B-2  
Page 4  
Witness: Bourassa

Accumulated Depreciation

Line No.			A	B	Adjustments C	D	E	
		Per Books		Difference	Intentionally	Intentionally	Intentionally	Adjusted
	Acct. No. Description	Accum. Depr.	Retirement Adjustments	to Computed Balance	Left Blank	Left Blank	Left Blank	Accum. Depr.
1								
2								
3								
4	301	Organization Cost	-	-				-
5	302	Franchise Cost	-	-				-
6	303	Land and Land Rights	-	-				-
7	304	Structures and Improvements	765,205	(6,400)	(619,356)			139,450
8	305	Collecting and Impounding Res.	-	-	-			-
9	306	Lake River and Other Intakes	-	-	-			-
10	307	Wells and Springs	597,386	(43,942)	(292,004)			261,440
11	308	Infiltration Galleries and Tunnels	-	-	-			-
12	309	Supply Mains	-	-	-			-
13	310	Power Generation Equipment	-	-	-			-
14	311	Electric Pumping Equipment	277,084	(424,468)	517,373			369,989
15	320	Water Treatment Equipment	-	-	-			-
16	320.1	Water Treatment Plant	-	-	-			-
17	320.2	Chemical Solution Feeders	-	(17,634)	27,524			9,890
18	330	Dist. Reservoirs & Standpipe	903,950	-	(903,950)			-
19	330.1	Storage tanks	-	(1,000)	491,208			490,208
20	330.2	Pressure Tanks	-	(11,433)	35,712			24,279
21	331	Trans. and Dist. Mains	1,020,426	-	605,441			1,625,867
22	333	Services	1,501,975	-	(640,918)			861,057
23	334	Meters	337,639	-	24,053			361,692
24	335	Hydrants	297,674	(3,000)	255,460			550,134
25	336	Backflow Prevention Devices	-	-	-			-
26	339	Other Plant and Misc. Equip.	-	-	-			-
27	340	Office Furniture and Fixtures	219,384	(1,687)	(217,587)			110
28	340.1	Computers and Software	-	(5,014)	5,292			278
29	341	Transportation Equipment	-	(18,572)	(32,501)			(51,073)
30	342	Stores Equipment	-	-	-			-
31	343	Tools and Work Equipment	-	(24,634)	58,885			34,251
32	344	Laboratory Equipment	-	-	-			-
33	345	Power Operated Equipment	19,878	-	14,237			34,114
34	346	Communications Equipment	4,420	(10,126)	82,188			76,482
35	347	Miscellaneous Equipment	-	-	-			-
36	348	Other Tangible Plant	-	-	-			-
37								
38								
39								
40		TOTALS	\$ 5,945,021	\$ (567,910)	\$ (588,942)	\$ -	\$ -	\$ 4,788,169
41								
42		Accumulated Depreciation per Books						\$ 5,945,021
43								
44		Increase (decrease) in Accumulated Depreciation						\$ (1,156,852)
45								
46		Adjustment to Accumulated Depreciation						\$ (1,156,852)
47								
48		<u>SUPPORTING SCHEDULES</u>						
49		Workpapers/B-2 Schedule - Pima Water.xlsx						
50		B-2, pages 3.1 to 3.19						



Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

Exhibit  
Schedule B-2  
Page 5  
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line  
No.

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	Gross CIAC	Accumulated Amortization
Computed balance at 12/31/2010	\$ 632,418	\$ 346,223
Book balance at 12/31/2010	<u>\$ 632,418</u>	<u>\$ 539,828</u>
Increase (decrease)	\$ (0)	\$ (193,605)
Adjustment to CIAC/AA CIAC	<u>\$ (0)</u>	<u>\$ 193,605</u>
Label	3a	3b

SUPPORTING SCHEDULES

E-1  
B-2, page 5.1

Exhibit  
Schedule B-2  
Page 5.1  
Witness: Bourassa

Witness: Courtessa

Line No.	1993												
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	
	12/31/1992	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993
CIAC	136,956	-	136,956	-	136,956	23,086	160,042	-	160,042	175,746	335,788	261,718	597,506
Amortization Decision No. 58743	80,166												
Amortization Rate			3.00%		3.00%		3.00%		3.00%		3.00%		3.00%
Amortization (1/2 yr convention)			4,109		4,109		4,455		4,801		7,437		13,999
Accumulated Amortization			84,275		88,383		92,838		97,640		105,077		119,076
Net CIAC	56,790	-	52,681	-	48,573	23,086	67,204	-	62,402	175,746	230,711	261,718	478,430

1999												
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	
	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	
CIAC	34,912	632,418	-	632,418	-	632,418	-	632,418	-	632,418	-	632,418
Amortization Rate												
Amortization (1/2 yr convention)		3.00%		3.00%		3.00%		3.00%		3.00%		3.00%
Accumulated Amortization		18,449		18,973		18,973		18,973		18,973		18,973
		137,525		156,498		175,470		194,443		213,415		232,388
Net CIAC	34,912	494,892	-	475,920	-	456,947	-	437,975	-	419,002	-	400,030

2005												
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	
	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	Additions	12/31/1993	
CIAC	-	632,418	-	632,418	-	632,418	-	632,418	-	632,418	-	632,418
Amortization Rate		3.00%		3.00%		3.00%		3.00%		3.00%		3.00%
Amortization (1/2 yr convention)		18,973		18,973		18,973		18,973		18,973		18,973
Accumulated Amortization		251,360		270,333		289,306		308,278		327,251		346,223
Net CIAC	-	381,057	-	362,085	-	343,112	-	324,139	-	305,167	-	286,194

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Computation of Working Capital

Exhibit  
Schedule B-5  
Page 1  
Witness: Bourassa

Line  
No.

1	Cash Working Capital (1/8 of Allowance	
2	Operation and Maintenance Expense)	\$ 106,177
3	Pumping Power (1/24 of Pumping Power)	10,519
4	Purchased Water (1/24 of Purchased Water)	-
5	Prepaid Expenses	
6		
7		
8		
9	Total Working Capital Allowance	<u>\$ 116,696</u>
10		
11		
12	Working Capital Requested	<u>\$ -</u>
13		
14		
15		
16		
17		<u>Adjusted Test Year</u>
18	Total Operating Expense	\$ 1,845,067
19	Less:	
20	Income Tax	\$ (27,157)
21	Property Tax	83,358
22	Depreciation	686,998
23	Purchased Water	-
24	Pumping Power	252,453
25	Allowable Expenses	<u>\$ 849,415</u>
26	1/8 of allowable expenses	<u>\$ 106,177</u>

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SUPPORTING SCHEDULES:  
E-1

RECAP SCHEDULES:  
B-1

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Income Statement

Exhibit  
Schedule C-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 1,976,508	\$ (6,142)	\$ 1,970,366	\$ 1,023,565	\$ 2,993,931
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	7,261	-	7,261	-	7,261
5		<u>\$ 1,983,769</u>	<u>\$ (6,142)</u>	<u>\$ 1,977,627</u>	<u>\$ 1,023,565</u>	<u>\$ 3,001,192</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 220,827	-	\$ 220,827	-	\$ 220,827
8	Salaries and Wages - Off. and Dir.	90,294	-	90,294	-	90,294
9	Employee Pensions and Benefits	64,900	-	64,900	-	64,900
10	Purchased Water	-	-	-	-	-
11	Purchased Power	228,469	23,985	252,453	-	252,453
12	Chemicals	16,721	-	16,721	-	16,721
13	Repairs and Maintenance	100,885	-	100,885	-	100,885
14	Office Supplies and Expense	67,321	-	67,321	-	67,321
15	Contractual Services - Engineering	5,283	-	5,283	-	5,283
16	Contractual Services - Accounting	3,067	-	3,067	-	3,067
17	Contractual Services - Legal	14,175	-	14,175	-	14,175
18	Contractual Services - Other	54,797	-	54,797	-	54,797
19	Contractual Services - Water Testing	18,737	-	18,737	-	18,737
20	Rents - Equipment	3,203	-	3,203	-	3,203
21	Transportation Expenses	44,637	-	44,637	-	44,637
22	Insurance - Vehicle	17,464	-	17,464	-	17,464
23	Insurance - General Liability	10,840	-	10,840	-	10,840
24	Insurance - Worker's Comp	1,009	-	1,009	-	1,009
25	Reg. Comm. Exp.	3,671	-	3,671	-	3,671
26	Reg. Comm. Exp. - Rate Case	-	50,000	50,000	-	50,000
27	Bad Debt Expense	4,766	-	4,766	-	4,766
28	Miscellaneous Expense	15,934	-	15,934	-	15,934
29	Depreciation Expense	477,551	209,446	686,998	-	686,998
30	Taxes Other Than Income	40,883	-	40,883	-	40,883
31	Property Taxes	94,465	(11,107)	83,358	13,708	97,066
32	Income Tax	-	(27,157)	(27,157)	280,881	253,724
33		-	-	-	-	-
34	<b>Total Operating Expenses</b>	<u>\$ 1,599,900</u>	<u>\$ 245,167</u>	<u>\$ 1,845,067</u>	<u>\$ 294,589</u>	<u>\$ 2,139,657</u>
35	<b>Operating Income</b>	<u>\$ 383,869</u>	<u>\$ (251,309)</u>	<u>\$ 132,560</u>	<u>\$ 728,975</u>	<u>\$ 861,536</u>
36	<b>Other Income (Expense)</b>					
37	Interest Income	48,219	-	48,219	-	48,219
38	Other income	1,254	-	1,254	-	1,254
39	Interest Expense	-	(203,041)	(203,041)	-	(203,041)
40	Other Expense	(1,692)	-	(1,692)	-	(1,692)
41		(758)	-	(758)	-	(758)
42	<b>Total Other Income (Expense)</b>	<u>\$ 47,024</u>	<u>\$ (203,041)</u>	<u>\$ (156,017)</u>	<u>\$ -</u>	<u>\$ (156,017)</u>
43	<b>Net Profit (Loss)</b>	<u><u>\$ 430,893</u></u>	<u><u>\$ (454,350)</u></u>	<u><u>\$ (23,457)</u></u>	<u><u>\$ 728,975</u></u>	<u><u>\$ 705,518</u></u>

SUPPORTING SCHEDULES:

C-1, page 2  
E-2

RECAP SCHEDULES:

A-1

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Income Statement

Exhibit  
Schedule C-1  
Page 2  
Witness: Bourassa

	LABEL>>>>	1	2	3	4	5	6	7	8				
Line	Test Year									Test Year	Proposed	Adjusted	
No.	Book		Property	Rate	Revenue	Purchased	Annualize	Interest	Income	Adjusted	Rate	with Rate	
	Results	Depreciation	Taxes	Case Expense	Annualization	Power	Purchased	Synch.	tax	Results	Increase	Increase	
1	Revenues												
2	Metered Water Revenues	\$ 1,976,508			(6,142)					\$ 1,970,366	\$ 1,023,565	\$ 2,993,931	
3	Unmetered Water Revenues	-								-		-	
4	Other Water Revenues	7,261								7,261		7,261	
5		\$ 1,983,769	\$ -	\$ -	\$ -	\$ (6,142)	\$ -	\$ -	\$ -	\$ 1,977,627	\$ 1,023,565	\$ 3,001,192	
6	Operating Expenses												
7	Salaries and Wages	\$ 220,827								\$ 220,827		\$ 220,827	
8	Salaries and Wages - Off. and Dir.	90,294								90,294		90,294	
9	Employee Pensions and Benefits	64,900								64,900		64,900	
10	Purchased Water	-								-		-	
11	Purchased Power	228,469				27,205	(3,220)			252,453		252,453	
12	Chemicals	16,721								16,721		16,721	
13	Repairs and Maintenance	100,885								100,885		100,885	
14	Office Supplies and Expense	67,321								67,321		67,321	
15	Contractual Services - Engineering	5,283								5,283		5,283	
16	Contractual Services - Accounting	3,067								3,067		3,067	
17	Contractual Services - Legal	14,175								14,175		14,175	
18	Contractual Services - Other	54,797								54,797		54,797	
19	Contr. Services - Water Testing	18,737								18,737		18,737	
20	Rents - Equipment	3,203								3,203		3,203	
21	Transportation Expenses	44,637								44,637		44,637	
22	Insurance - Vehicle	17,464								17,464		17,464	
23	Insurance - General Liability	10,840								10,840		10,840	
24	Insurance - Worker's Comp	1,009								1,009		1,009	
25	Reg. Comm. Exp.	3,671								3,671		3,671	
26	Reg. Comm. Exp. - Rate Case	-		50,000						50,000		50,000	
27	Bad Debt Expense	4,766								4,766		4,766	
28	Miscellaneous Expense	15,934								15,934		15,934	
29	Depreciation Expense	477,551	209,446							686,998		686,998	
30	Taxes Other Than Income	40,883								40,883		40,883	
31	Property Taxes	94,465		(11,107)						83,358	13,708	97,066	
32	Income Tax	-							(27,157)	(27,157)	280,881	253,724	
33													
34	Total Operating Expenses	\$ 1,599,900	\$ 209,446	\$ (11,107)	\$ 50,000	\$ -	\$ 27,205	\$ (3,220)	\$ -	\$ (27,157)	\$ 1,845,067	\$ 294,589	\$ 2,139,657
35	Operating Income	\$ 383,869	\$ (209,446)	\$ 11,107	\$ (50,000)	\$ (6,142)	\$ (27,205)	\$ 3,220	\$ -	\$ 27,157	\$ 132,560	\$ 728,975	\$ 861,536
36	Other Income (Expense)												
37	Interest Income	48,219								48,219		48,219	
38	Other Income	1,254								1,254		1,254	
39	Interest Expense	-						(203,041)		(203,041)		(203,041)	
40	Other Expense	(1,692)								(1,692)		(1,692)	
41		(758)								(758)		(758)	
42	Total Other Income (Expense)	\$ 47,024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (203,041)	\$ -	\$ (156,017)	\$ -	\$ (156,017)	
43	Net Profit (Loss)	\$ 430,893	\$ (209,446)	\$ 11,107	\$ (50,000)	\$ (6,142)	\$ (27,205)	\$ 3,220	\$ (203,041)	\$ 27,157	\$ 728,975	\$ 705,518	

SUPPORTING SCHEDULES:

C-2

E-2

RECAP SCHEDULES:

C-1, page 1

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Adjustments to Revenues and Expenses

Exhibit  
Schedule C-2  
Page 1  
Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
	<u>1</u> Depreciation Expense	<u>2</u> Property Taxes	<u>3</u> Rate Case Expense	<u>4</u> Revenue Annualization	<u>5</u> Purchased Power	<u>6</u> Annual Purchased Power	
1							
2							
3				(6,142)			(6,142)
4							
5	209,446	(11,107)	50,000		27,205	(3,220)	272,324
6							
7							
8	(209,446)	11,107	(50,000)	(6,142)	(27,205)	3,220	(278,466)
9							
10							
11							
12							
13						(3,220)	(3,220)
14							
15							
16	(209,446)	11,107	(50,000)	(6,142)	(27,205)	-	(281,686)
17							
18							
19							
20	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Subtotal</u>
21	Interest Synch.	Income Taxes					
22							
23							(6,142)
24							
25		(27,157)					245,167
26							
27							
28	-	27,157	-	-	-	-	(251,309)
29							
30							
31	(203,041)						(203,041)
32							
33							(3,220)
34							
35							
36	(203,041)	27,157	-	-	-	-	(457,570)
37							

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Adjustments to Revenues and Expenses  
Adjustment Number 1

Exhibit  
Schedule C-2  
Page 2  
Witness: Bourassa

Depreciation Expense

Line No.	Acct.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1					
2					
3					
4	No.	Description	Cost	Rates	Expense
5	301	Organization Cost	-	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	97,637	0.00%	-
8	304	Structures and Improvements	315,125	3.33%	10,494
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	606,699	3.33%	20,203
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	-	5.00%	-
15	311	Electric Pumping Equipment	2,263,801	12.50%	282,975
16	320	Water Treatment Equipment	-	3.33%	-
17	320.1	Water Treatment Plant	-	3.33%	-
18	320.2	Chemical Solution Feeders	58,255	20.00%	11,651
19	330	Dist. Reservoirs & Standpipe	-	2.22%	-
20	330.1	Storage tanks	1,102,197	2.22%	24,469
21	330.2	Pressure Tanks	73,937	5.00%	3,697
22	331	Trans. and Dist. Mains	2,916,048	2.00%	58,321
23	333	Services	4,709,148	3.33%	156,815
24	334	Meters	923,202	8.33%	76,903
25	335	Hydrants	887,381	2.00%	17,748
26	336	Backflow Prevention Devices	-	6.67%	-
27	339	Other Plant and Misc. Equip.	-	6.67%	-
28	340	Office Furniture and Fixtures	4,239	6.67%	283
29	340.1	Computers and Software	28,479	20.00%	5,696
30	341	Transportation Equipment	61,635	20.00%	12,327
31	342	Stores Equipment	-	4.00%	-
32	343	Tools and Work Equipment	134,506	5.00%	6,725
33	344	Laboratory Equipment	-	10.00%	-
34	345	Power Operated Equipment	124,899	5.00%	6,245
35	346	Communications Equipment	238,939	10.00%	23,894
36	347	Miscellaneous Equipment	-	10.00%	-
37	348	Other Tangible Plant	-	10.00%	-
38		TOTALS	\$ 14,546,128		\$ 718,444
39					
40					
41		Less: Amortization of Contributions	\$ 632,418	4.9725%	\$ (31,447)
42		Total Depreciation Expense			\$ 686,998
43					
44		Adjusted Test Year Depreciation Expense			477,551
45					
46		Increase (decrease) in Depreciation Expense			209,446
47					
48		Adjustment to Revenues and/or Expenses			\$ 209,446
49					
50		<u>SUPPORTING SCHEDULE</u>			
51		B-2, page 3			

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 2

Exhibit  
Schedule C-2  
Page 3  
Witness: Bourassa

Property Taxes

Line		Test Year	Company
No.	DESCRIPTION	as adjusted	Recommended
1	Company Adjusted Test Year Revenues - 2007	\$ 1,977,627	\$ 1,977,627
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,955,255	3,955,255
4	Company Recommended Revenue	1,977,627	3,001,192
5	Subtotal (Line 4 + Line 5)	5,932,882	6,956,447
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,977,627	2,318,816
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,955,255	4,637,632
10	Plus: 10% of CWIP - 2010	-	-
11	Less: Net Book Value of Licensed Vehicles	112,708	112,708
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,842,547	4,524,924
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	768,509	904,985
15	Composite Property Tax Rate - Obtained from ADOR	10.0442%	10.0442%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 77,191	\$ 90,899
17	Tax on Parcels	6,167	6,167
18	Total Property Taxes (Line 16 + Line 17)	\$ 83,358	
19	Test Year Property Taxes	\$ 94,465	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ (11,107)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 97,066
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 83,358
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 13,708
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 13,708
27	Increase in Revenue Requirement		\$ 1,023,565
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.33923%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			



**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Schedule C-2  
Page 4  
Witness: Bourassa

Rate Case Expense

Line  
No.

1

2

3

Estimated Rate Case Expense

\$ 200,000

4

5

Estimated Amortization Period in Years

4

6

7

Annual Rate Case Expense

\$ 50,000

8

9

Test Year Rate Case Expense

\$ -

10

11

Increase(decrease) Rate Case Expense

\$ 50,000

12

13

Adjustment to Revenue and/or Expense

\$ 50,000

14

15

16

17

18

19

20

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Schedule C-2  
Page 5  
Witness: Bourassa

Revenue Annualization

Line

No.

1

2

3

4 Revenue Annualization

\$ (6,142)

5

6

7

8 Total Revenue from Annualization

\$ (6,142)

9

10

11 Adjustment to Revenue and/or Expense

\$ (6,142)

12

13 SUPPORTING SCHEDULES

14 C-2 pages 5.1 to 5.8

15 H-1

16

17

18

19

20

Pima Utility Company - Water Division  
Revenue Annualization to Year End Customers: Residential 5/8x3/4 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.1  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	9,743	9,743	9,743	9,743	9,743	9,743	9,743
2	Actual Customers	9,748	9,745	9,762	9,765	9,752	9,742	9,736
3	Increase in Number of Customers/Bills	(5)	(2)	(19)	(22)	(9)	1	7
4	Average Revenue / Present Rates	\$ 9.92	\$ 9.75	\$ 9.86	\$ 10.57	\$ 10.71	\$ 11.42	\$ 11.48
5	Revenue Annualization / Present Rates	\$ (50)	\$ (20)	\$ (187)	\$ (232)	\$ (96)	\$ 11	\$ 80
6								
7	Increase in Number of Customers	(5)	(2)	(19)	(22)	(9)	1	7
8	Average Revenue / Proposed Rates	\$ 13.39	\$ 13.14	\$ 13.30	\$ 14.35	\$ 14.56	\$ 15.61	\$ 15.71
9	Revenue Annualization / Proposed Rates	\$ (67)	\$ (26)	\$ (253)	\$ (316)	\$ (131)	\$ 16	\$ 110
10	Additional Gallons to be Produced	(27,944)	(10,810)	(104,901)	(138,372)	(58,025)	7,213	51,008
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13								
14								
15	Year End Number of Customers	9,743	9,743	9,743	9,743	9,743		
16	Actual Customers	9,745	9,747	9,744	9,733	9,743		
17	Increase in Number of Customers/Bills	(2)	(4)	(1)	10	-	(46)	
18	Average Revenue / Present Rates	\$ 11.36	\$ 11.55	\$ 10.64	\$ 10.88	\$ 9.82		
19	Revenue Annualization / Present Rates	\$ (23)	\$ (46)	\$ (11)	\$ 109	\$ -	\$ (464)	
20								
21	Increase in Number of Customers	(2)	(4)	(1)	10	-		
22	Average Revenue / Proposed Rates	\$ 15.53	\$ 15.81	\$ 14.46	\$ 14.81	\$ 13.24		
23	Revenue Annualization / Proposed Rates	\$ (23)	\$ (46)	\$ (11)	\$ 109	\$ -	\$ (628)	
24	Additional Gallons to be Produced	(14,310)	(29,453)	(6,368)	66,289	-	(265,673)	

**Pima Utility Company - Water Division**  
Revenue Annualization to Year End Customers: Residential 1 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.2  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	223	223	223	223	223	223	223
2	Actual Customers	220	218	220	219	221	221	222
3	Increase in Number of Customers/Bills	3	5	3	4	2	2	1
4	Average Revenue / Present Rates	\$ 31.64	\$ 29.04	\$ 32.33	\$ 39.59	\$ 46.35	\$ 59.83	\$ 53.74
5	Revenue Annualization / Present Rates	\$ 95	\$ 145	\$ 97	\$ 158	\$ 93	\$ 120	\$ 54
6								
7	Increase in Number of Customers	3	5	3	4	2	2	1
8	Average Revenue / Proposed Rates	\$ 43.63	\$ 40.34	\$ 44.49	\$ 53.67	\$ 64.92	\$ 88.20	\$ 77.68
9	Revenue Annualization / Proposed Rates	\$ 131	\$ 202	\$ 133	\$ 215	\$ 130	\$ 176	\$ 78
10	Additional Gallons to be Produced	50,456	72,055	52,358	876	442	442	222
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
15	Year End Number of Customers	223	223	223	223	223		
16	Actual Customers	218	222	223	219	221		
17	Increase in Number of Customers/Bills	5	1	-	4	2	32	
18	Average Revenue / Present Rates	\$ 53.93	\$ 52.08	\$ 45.04	\$ 46.82	\$ 37.32		
19	Revenue Annualization / Present Rates	\$ 270	\$ 52	\$ -	\$ 187	\$ 75	\$ 1,345	
20								
21	Increase in Number of Customers	5	1	-	4	2		
22	Average Revenue / Proposed Rates	\$ 78.01	\$ 74.82	\$ 62.66	\$ 65.75	\$ 50.79		
23	Revenue Annualization / Proposed Rates	\$ 270	\$ 52	\$ -	\$ 187	\$ 75	\$ 1,894	
24	Additional Gallons to be Produced	1,090	222	-	876	442	179,482	

**Pima Utility Company - Water Division**  
Revenue Annualization to Year End Customers: Commercial 5/8x3/4 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.3  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	62	62	62	62	62	62	62
2	Actual Customers	63	63	63	63	63	67	63
3	Increase in Number of Customers/Bills	(1)	(1)	(1)	(1)	(1)	(5)	(1)
4	Average Revenue / Present Rates	\$ 21.36	\$ 21.88	\$ 25.61	\$ 33.44	\$ 32.87	\$ 33.50	\$ 40.39
5	Revenue Annualization / Present Rates	\$ (21)	\$ (22)	\$ (26)	\$ (33)	\$ (33)	\$ (168)	\$ (40)
6								
7	Increase in Number of Customers	(1)	(1)	(1)	(1)	(1)	(5)	(1)
8	Average Revenue / Proposed Rates	\$ 33.76	\$ 34.65	\$ 41.10	\$ 54.61	\$ 53.63	\$ 54.72	\$ 66.61
9	Revenue Annualization / Proposed Rates	\$ (34)	\$ (35)	\$ (41)	\$ (55)	\$ (54)	\$ (274)	\$ (67)
10	Additional Gallons to be Produced	(16,836)	(17,314)	(20,772)	(28,018)	(27,494)	(140,372)	(34,452)
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13								
14								
15	Year End Number of Customers	62	62	62	62	62		
16	Actual Customers	62	62	62	62	62		
17	Increase in Number of Customers/Bills	-	-	-	-	-	(11)	
18	Average Revenue / Present Rates	\$ 38.59	\$ 40.83	\$ 36.34	\$ 39.34	\$ 29.95		
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (343)	
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	\$ 63.51	\$ 67.36	\$ 59.61	\$ 64.79	\$ 48.58		
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (558)	
24	Additional Gallons to be Produced	-	-	-	-	-	(285,257)	

Pima Utility Company - Water Division  
Revenue Annualization to Year End Customers: Commercial 3/4 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.4  
Witness: Bourassa

Line No.		Month of <u>Jan</u>	Month of <u>Feb</u>	Month of <u>Mar</u>	Month of <u>Apr</u>	Month of <u>May</u>	Month of <u>Jun</u>	Month of <u>Jul</u>
1	Year End Number of Customers	4	4	4	4	4	4	4
2	Actual Customers	4	4	4	4	4	4	4
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	\$ 15.06	\$ 14.79	\$ 18.17	\$ 18.03	\$ 79.48	\$ 60.66	\$ 60.83
5	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	\$ 22.88	\$ 22.41	\$ 28.24	\$ 28.01	\$ 134.11	\$ 101.62	\$ 101.90
9	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12		Month of <u>Aug</u>	Month of <u>Sep</u>	Month of <u>Oct</u>	Month of <u>Nov</u>	Month of <u>Dec</u>	Total Year	
13								
14								
15	Year End Number of Customers	4	4	4	4	4		
16	Actual Customers	4	4	4	4	4		
17	Increase in Number of Customers/Bills	-	-	-	-	-		
18	Average Revenue / Present Rates	\$ 44.52	\$ 45.25	\$ 16.28	\$ 35.80	\$ 37.34		
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -		
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	\$ 73.74	\$ 75.00	\$ 24.98	\$ 58.68	\$ 61.34		
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -		
24	Additional Gallons to be Produced	-	-	-	-	-		

**Pima Utility Company - Water Division**  
Revenue Annualization to Year End Customers: Commercial 1 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.5  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	46	46	46	46	46	46	46
2	Actual Customers	49	45	45	45	45	45	45
3	Increase in Number of Customers/Bills	(3)	1	1	1	1	1	1
4	Average Revenue / Present Rates	\$ 33.65	\$ 39.41	\$ 39.68	\$ 43.46	\$ 48.91	\$ 66.86	\$ 80.01
5	Revenue Annualization / Present Rates	\$ (101)	\$ 39	\$ 40	\$ 43	\$ 49	\$ 67	\$ 80
6								
7	Increase in Number of Customers	(3)	1	1	1	1	1	1
8	Average Revenue / Proposed Rates	\$ 46.16	\$ 53.44	\$ 53.78	\$ 59.93	\$ 69.35	\$ 100.35	\$ 123.05
9	Revenue Annualization / Proposed Rates	\$ (138)	\$ 53	\$ 54	\$ 60	\$ 69	\$ 100	\$ 123
10	Additional Gallons to be Produced	(56,024)	24,011	24,261	27,758	32,808	49,429	61,603
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13								
14								
15	Year End Number of Customers	46	46	46	46	46		
16	Actual Customers	45	45	45	46	46		
17	Increase in Number of Customers/Bills	1	1	1	-	-	6	
18	Average Revenue / Present Rates	\$ 65.82	\$ 61.65	\$ 45.05	\$ 54.18	\$ 45.76		
19	Revenue Annualization / Present Rates	\$ 66	\$ 62	\$ 45	\$ -	\$ -	\$ 390	
20								
21	Increase in Number of Customers	1	1	1	-	-		
22	Average Revenue / Proposed Rates	\$ 98.54	\$ 91.34	\$ 62.68	\$ 78.45	\$ 63.91		
23	Revenue Annualization / Proposed Rates	\$ 66	\$ 62	\$ 45	\$ -	\$ -	\$ 574	
24	Additional Gallons to be Produced	48,460	44,601	29,232	-	-	286,139	

**Pima Utility Company - Water Division**  
Revenue Annualization to Year End Customers: Commercial 1 1/2 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.6  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	
1	Year End Number of Customers	11	11	11	11	11	11	11	
2	Actual Customers	12	11	11	11	11	12	11	
3	Increase in Number of Customers/Bills	(1)	-	-	-	-	(1)	-	
4	Average Revenue / Present Rates	\$ 46.15	\$ 48.54	\$ 51.30	\$ 69.49	\$ 73.54	\$ 80.66	\$ 80.73	
5	Revenue Annualization / Present Rates	\$ (46)	\$ -	\$ -	\$ -	\$ -	\$ (81)	\$ -	
6									
7	Increase in Number of Customers	(1)	-	-	-	-	(1)	-	
8	Average Revenue / Proposed Rates	\$ 62.09	\$ 65.12	\$ 68.61	\$ 91.59	\$ 97.20	\$ 109.50	\$ 109.61	
9	Revenue Annualization / Proposed Rates	\$ (62)	\$ -	\$ -	\$ -	\$ -	\$ (109)	\$ -	
10	Additional Gallons to be Produced	(25,617)	-	-	-	-	(57,575)	-	
11									
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec		Total Year	
13									
14									
15	Year End Number of Customers	11	11	11	11	11			
16	Actual Customers	11	11	11	11	11			
17	Increase in Number of Customers/Bills	-	-	-	-	-		(2)	
18	Average Revenue / Present Rates	\$ 90.67	\$ 91.02	\$ 167.69	\$ 73.42	\$ 71.11			
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -		\$ (127)	
20									
21	Increase in Number of Customers	-	-	-	-	-			
22	Average Revenue / Proposed Rates	\$ 126.78	\$ 127.38	\$ 259.76	\$ 97.00	\$ 93.63			
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -		\$ (172)	
24	Additional Gallons to be Produced	-	-	-	-	-		(83,192)	



**Pima Utility Company - Water Division**  
Revenue Annualization to Year End Customers: Commerical 2 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.7  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	97	97	97	97	97	97	97
2	Actual Customers	96	96	96	96	96	100	96
3	Increase in Number of Customers/Bills	1	1	1	1	1	(3)	1
4	Average Revenue / Present Rates	\$ 77.88	\$ 68.26	\$ 73.40	\$ 64.82	\$ 54.68	\$ 51.87	\$ 56.70
5	Revenue Annualization / Present Rates	\$ 78	\$ 68	\$ 73	\$ 65	\$ 55	\$ (156)	\$ 57
6								
7	Increase in Number of Customers	1	1	1	1	1	(3)	1
8	Average Revenue / Proposed Rates	\$ 102.34	\$ 90.18	\$ 96.67	\$ 85.83	\$ 73.01	\$ 69.47	\$ 75.57
9	Revenue Annualization / Proposed Rates	\$ 102	\$ 90	\$ 97	\$ 86	\$ 73	\$ (208)	\$ 76
10	Additional Gallons to be Produced	50,371	41,462	46,222	38,274	28,886	(78,862)	30,759
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13								
14								
15	Year End Number of Customers	97	97	97	97	97		
16	Actual Customers	96	96	97	97	97		
17	Increase in Number of Customers/Bills	1	1	-	-	-	5	
18	Average Revenue / Present Rates	\$ 64.20	\$ 76.67	\$ 57.39	\$ 61.16	\$ 71.51		
19	Revenue Annualization / Present Rates	\$ 64	\$ 77	\$ -	\$ -	\$ -	\$ 381	
20								
21	Increase in Number of Customers	1	1	-	-	-		
22	Average Revenue / Proposed Rates	\$ 85.05	\$ 100.80	\$ 76.44	\$ 81.21	\$ 94.29		
23	Revenue Annualization / Proposed Rates	\$ 64	\$ 77	\$ -	\$ -	\$ -	\$ 501	
24	Additional Gallons to be Produced	37,702	49,248	-	-	-	244,063	

**Pima Utility Company - Water Division**  
Revenue Annualization to Year End Customers: Irrigation - Recovered Effluent  
Test Year Ended December 31, 2010  
**REVENUES RECORDED ON WATER BOOKS WHICH BELONG ON SEWER BOOKS**

Exhibit  
Schedule C-2  
Page 5.8  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	-	-	-	-	-	-	-
2	Actual Customers	1	1	1	1	1	1	1
3	Increase in Number of Customers/Bills	(1)	(1)	(1)	(1)	(1)	(1)	(1)
4	Average Revenue / Present Rates	\$ 463.03	\$ 386.35	\$ 321.16	\$ 355.79	\$ 559.87	\$ 1,090.12	\$ 1,484.68
5	Revenue Annualization / Present Rates	\$ (463)	\$ (386)	\$ (321)	\$ (356)	\$ (560)	\$ (1,090)	\$ (1,485)
6								
7	Increase in Number of Customers	(1)	(1)	(1)	(1)	(1)	(1)	(1)
8	Average Revenue / Proposed Rates	\$ 463.03	\$ 386.35	\$ 321.16	\$ 355.79	\$ 559.87	\$ 1,090.12	\$ 1,484.68
9	Revenue Annualization / Proposed Rates	\$ (463)	\$ (386)	\$ (321)	\$ (356)	\$ (560)	\$ (1,090)	\$ (1,485)
10	Additional Gallons to be Produced	(1,386,200)	(1,173,200)	(992,100)	(1,088,300)	(1,655,200)	(3,128,100)	(4,224,100)
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13		-	-	-	-	-		
14	Year End Number of Customers	1	1	1	1	1		
15	Actual Customers	(1)	(1)	(1)	(1)	(1)	(12)	
16	Increase in Number of Customers/Bills	(1)	(1)	(1)	(1)	(1)		
17	Average Revenue / Present Rates	\$ 491.54	\$ 920.16	\$ 405.54	\$ 427.28	\$ 418.39		
18	Revenue Annualization / Present Rates	\$ (492)	\$ (920)	\$ (406)	\$ (427)	\$ (418)	\$ (7,324)	
19								
20	Increase in Number of Customers	(1)	(1)	(1)	(1)	(1)		
21	Average Revenue / Proposed Rates	\$ 491.54	\$ 920.16	\$ 405.54	\$ 427.28	\$ 418.39		
22	Revenue Annualization / Proposed Rates	\$ (492)	\$ (920)	\$ (406)	\$ (427)	\$ (418)	\$ (7,324)	
23	Additional Gallons to be Produced	(1,465,400)	(2,656,000)	(1,226,500)	(1,286,900)	(1,262,200)	(21,544,200)	
24								

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Schedule C-2  
Page 6  
Witness: Bourassa

Purchased Power Adjustments

Line

No.

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Rebate from Ocotillo Water Conservation District

Remove power costs for recharge wells

Total

\$ 30,416  
(3,211)

\$ 27,205

Adjustment to purchased power expense

\$ 27,205

Adjustment to Revenue and/or Expense

\$ 27,205

REFERENCE

Testimony

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Schedule C-2  
Page 7  
Witness: Bourassa

Annualize Purchased Power

Line  
No.

1		
2	Test Year purchased power expense	\$ 228,469
3	Purchased Power Adjustments (Adjustment 5)	<u>27,205</u>
4		
5	Adjusted Test Year purchased power expense	\$ 255,674
6		
7		
8	Gallons sold during test year (in ,1000's)	1,756,437
9		
10	Cost per 1,000 gallons = line3 / line 5	\$ 0.15
11		
12	Additional gallons from annualization (in 1,000's)	(21,469)
13		
14	Additional purchased power expense	\$ (3,220)
15		
16		
17	Adjustment to Revenue and/or Expense	<u>\$ (3,220)</u>
18		
19	<u>REFERENCE</u>	
20	Line 3: C-1 line 11	
21	Line 5: H-1 annualized gallons	
22	H-2, page 3: total gallons sold	
23		

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Schedule C-2  
Page 8  
Witness: Bourassa

Interest Synchronization

Line  
No.

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Fair Value Rate Base	\$	9,097,529	
Weighted Cost of Debt		2.23%	
Interest Expense	\$	203,041	
Test Year Interest Expense	\$	-	
Increase (decrease) in Interest Expense		203,041	
Adjustment to Revenue and/or Expense	\$	(203,041)	

Weighted Cost of Debt Computation

	<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	\$ 8,370,000	31.08%	7.18%	2.23%
Equity	\$ 18,563,072	68.92%	10.50%	7.24%
Total	\$ 26,933,072	100.00%		9.47%

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Adjustment to Revenues and/or Expenses  
Adjustment Number 8

Exhibit  
Schedule C-2  
Page 9  
Witness: Bourassa

Line  
No.

1	<u>Income Tax Computation</u>		
2			
3			
4			
5			
6	Revenue	\$ 1,977,627	\$ 3,001,192
	Operating Expenses Excluding Income Taxes	1,872,224	1,885,932
	Synchronized Interest	203,041	203,041
7	Income Before Taxes	<u>\$ (97,638)</u>	<u>\$ 912,219</u>
8			
9	Arizona Income Before Taxes	\$ (97,638)	\$ 912,219
10			
11	Less: Effective Arizona Income Tax	<u>\$ (4,342)</u>	<u>\$ 40,565</u>
12	Rate = 4.4468% <sup>1</sup>		
13	Arizona Taxable Income	\$ (93,296)	\$ 871,654
14			
15	Arizona Income Taxes	\$ (4,342)	\$ 40,565
16			
17	Federal Income Before Taxes	\$ (97,638)	\$ 912,219
18			
19	Less Arizona Income Taxes	<u>\$ (4,342)</u>	<u>\$ 40,565</u>
20			
21	Federal Taxable Income	<u>\$ (93,296)</u>	<u>\$ 871,654</u>
22			
23			
24			
25	FEDERAL INCOME TAXES:		
26	Effective Federal Tax Rate = 24.4546% <sup>1</sup>	\$ (22,815)	\$ 213,160
27			
28			
29			
30			
31			
32	Federal Income Taxes	<u>\$ (22,815)</u>	<u>\$ 213,160</u>
33			
34			
35	Total Income Tax	<u>\$ (27,157)</u>	<u>\$ 253,724</u>
36			
37	Overall Tax Rate	<u>27.81%</u>	<u>27.81%</u>
38			
39	Income Tax	\$ (27,157)	\$ 253,724
40	Test Year Income tax Expense	-	(27,157)
41	Adjustment to Income Tax Expense	<u>\$ (27,157)</u>	<u>\$ 280,881</u>
42			
43			

44 <sup>1</sup> See work papers/testimony

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Computation of Gross Revenue Conversion Factor

Exhibit  
Schedule C-3  
Page 1  
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	27.814%
2		
3	Property Taxes	<u>0.967%</u>
4		
5		
6	Total Tax Percentage	28.781%
7		
8	Operating Income % = 100% - Tax Percentage	71.219%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.4041
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
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39		
40		

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	28.7807%					
5	Subtotal (L3 - L4)	71.2193%					
6	Revenue Conversion Factor (L1 / L5)	1.404114					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	27.8140%					
9	One Minus Combined Income Tax Rate (L7 - L8)	72.1860%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	4.4468%					
14	Federal Taxable Income (L12 - L13)	95.5532%					
15	Applicable Federal Income Tax Rate (Line 44)	24.4546%					
16	Effective Federal Income Tax Rate (L14 x L15)	23.3672%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		27.8140%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	27.8140%					
20	One Minus Combined Income Tax Rate (L18-L19)	72.1860%					
21	Property Tax Factor	1.3392%					
22	Effective Property Tax Factor (L20*L21)		0.9667%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			28.7807%			
24	Required Operating Income	\$ 861,536					
25	Adjusted Test Year Operating Income (Loss)	\$ 132,560					
26	Required Increase in Operating Income (L24 - L25)		\$ 728,976				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 253,724					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (27,157)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 280,881				
30	Recommended Revenue Requirement	\$ 3,001,192					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 97,066					
36	Property Tax on Test Year Revenue	\$ 83,358					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 13,708				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 1,023,565				

	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Income Tax:</u>						
39	Revenue	\$ 1,977,627	\$ 1,977,627	\$ 3,001,192	\$ 3,001,192	
40	Operating Expenses Excluding Income Taxes	\$ 1,872,224	\$ 1,872,224	\$ 1,885,932	\$ 1,885,932	
41	Synchronized Interest (L47)	\$ 203,041	\$ 203,041	\$ 203,041	\$ 203,041	
42	Arizona Taxable Income (L30 - L31 - L32)	\$ (97,638)	\$ (97,638)	\$ -	\$ -	
43	Arizona State Effective Income Tax Rate (see work papers)	4.4468%	4.4468%	4.4468%	4.4468%	4.4468%
44	Arizona Income Tax (L33 x L34)	\$ (4,342)	\$ (4,342)	\$ -	\$ -	
45	Federal Taxable Income (L33 - L35)	\$ (93,296)	\$ (93,296)	\$ -	\$ -	
46	Effective Tax Rate (see work papers)	24.4546%	24.4546%			
47	Federal Income Tax	\$ (22,815)	\$ (22,815)	\$ 213,160	\$ 213,160	
48		\$ -	\$ -	\$ -	\$ -	
49		\$ -	\$ -	\$ -	\$ -	
50		\$ -	\$ -	\$ -	\$ -	
51	Total Federal Income Tax	\$ (22,815)	\$ (22,815)	\$ 213,160	\$ 213,160	
52	Combined Federal and State Income Tax (L35 + L42)	\$ (27,157)	\$ (27,157)	\$ 253,724	\$ 253,724	

53 COMBINED Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (A), L51] / [Col. (D), L45 - Col. (A), L45]  
54 WATER Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45]  
55

24.4546%  
24.4546%

Calculation of Interest Synchronization:  
56 Rate Base  
57 Weighted Average Cost of Debt  
58 Synchronized Interest (L45 X L46)

		N/A
\$ 9,097,529	\$ -	
2.2318%	0.0000%	
\$ 203,041	\$ -	



**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Comparative Balance Sheets

Exhibit  
Schedule E-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2010	Year Ended 12/31/2009	Year Ended 12/31/2008
1	<b><u>ASSETS</u></b>			
2	Plant In Service	\$ 17,904,574	\$ 17,427,962	\$ 16,921,138
3				
4	Non-Utility Plant	-	-	-
5	Construction Work in Progress	-	-	-
6	Less: Accumulated Depreciation	(5,945,021)	(5,474,337)	(5,010,396)
7	Net Plant	<u>\$ 11,959,553</u>	<u>\$ 11,953,625</u>	<u>\$ 11,910,743</u>
8				
9	Debt Reserve Fund	\$ -	\$ -	\$ -
10				
11		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
12				
13	<b><u>CURRENT ASSETS</u></b>			
14	Cash and Equivalents	\$ 168,136	\$ 92,659	\$ 144,203
15	Restricted Cash	-	-	-
16	Accounts Receivable, Net	160,374	161,364	151,902
17	Notes Receivable	718,789	566,157	3,340,130
18	Materials and Supplies	-	-	-
19	Prepayments	-	1,596	7,308
20	Other Current Assets	-	317	261
21	Total Current Assets	<u>\$ 1,047,299</u>	<u>\$ 822,093</u>	<u>\$ 3,643,804</u>
22				
23	Deferred Debits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
24				
25	Other Investments & Special Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
26				
27	<b>TOTAL ASSETS</b>	<u><u>\$ 13,006,853</u></u>	<u><u>\$ 12,775,719</u></u>	<u><u>\$ 15,554,546</u></u>
28				
29				
30	<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>			
31				
32	Common Equity	<u>\$ 12,160,028</u>	<u>\$ 12,029,135</u>	<u>\$ 14,769,314</u>
33				
34	Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
35				
36	<b><u>CURRENT LIABILITIES</u></b>			
37	Accounts Payable	\$ 219,702	\$ 102,857	\$ 64,893
38	Current Portion of Long-Term Debt	-	-	-
39	Payables to Associated Companies	-	-	-
40	Security Deposits	-	-	-
41	Customer Meter Deposits, Current	-	-	-
42	Accrued Taxes	85,326	83,287	82,930
43	Accrued Interest	-	-	-
44	Other Current Liabilities	74,971	64,240	83,288
45	Total Current Liabilities	<u>\$ 379,999</u>	<u>\$ 250,384</u>	<u>\$ 231,111</u>
46	<b><u>DEFERRED CREDITS</u></b>			
47	Customer Meter Deposits, less current	\$ -	\$ -	\$ -
48	Advances in Aid of Construction	374,236	384,637	423,588
49	Accumulated Deferred Income Taxes	-	-	-
50	Contributions In Aid of Construction	632,418	632,418	632,418
51	Accumulated Amortization	(539,828)	(520,856)	(501,884)
52	Total Deferred Credits	<u>\$ 466,825</u>	<u>\$ 496,199</u>	<u>\$ 554,122</u>
53				
54	Total Liabilities & Common Equity	<u><u>\$ 13,006,853</u></u>	<u><u>\$ 12,775,719</u></u>	<u><u>\$ 15,554,546</u></u>
55				
56				
57				
58	<b><u>SUPPORTING SCHEDULES:</u></b>		<b><u>RECAP SCHEDULES:</u></b>	
59	Workpapers/Trial Balance Mapping Water and Sewer tjb.xls		A-3	
60				

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Comparative Income Statements

Exhibit  
Schedule E-2  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2010	Prior Year Ended 12/31/2009	Prior Year Ended 12/31/2008
1	<b>Revenues</b>			
2	Metered Water Revenues	\$ 1,976,508	\$ 2,046,872	\$ 2,039,761
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	7,261	7,579	6,651
5	<b>Total Revenues</b>	<u>\$ 1,983,769</u>	<u>\$ 2,054,451</u>	<u>\$ 2,046,412</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 220,827	\$ 180,704	\$ 153,213
8	Salaries and Wages - Officers and Directors	\$ 90,294	\$ 90,294	\$ 90,571
9	Employee Pensions and Benefits	\$ 64,900	\$ 55,409	\$ 60,229
10	Purchased Water	-	-	-
11	Purchased Power	228,469	250,685	267,998
12	Chemicals	16,721	14,901	16,596
13	Repairs and Maintenance	100,885	38,438	59,133
14	Office Supplies and Expense	67,321	75,072	70,869
15	Contractual Services - Engineering	5,283	-	-
16	Contractual Services - Accounting	3,067	3,709	2,940
17	Contractual Services - Legal	14,175	5,668	18,098
18	Contractual Services - Other	54,797	54,527	73,203
19	Contractual Services - Water Testing	18,737	19,801	36,463
20	Rents - Equipment	3,203	450	1,110
21	Transportation Expenses	44,637	33,092	45,812
22	Insurance - Vehicle	17,464	16,321	11,231
23	Insurance - General Liability	10,840	24,596	13,780
24	Insurance - Worker's Comp	1,009	529	560
25	Regulatory Commission Expense	3,671	3,697	(398)
26	Regulatory Commission Expense - Rate Case	-	-	-
27	Bad Debt Expense	4,766	4,871	4,139
28	Miscellaneous Expense	15,934	8,142	429
29	Depreciation Expense	477,551	462,927	431,892
30	Taxes Other Than Income	40,883	33,383	12,588
31	Property Taxes	94,465	98,043	94,818
32	Income Tax	-	-	-
33		-	-	-
34	<b>Total Operating Expenses</b>	<u>\$ 1,599,900</u>	<u>\$ 1,475,260</u>	<u>\$ 1,465,275</u>
35	<b>Operating Income</b>	<u>\$ 383,869</u>	<u>\$ 579,191</u>	<u>\$ 581,137</u>
36	<b>Other Income (Expense)</b>			
37	Interest Income	48,219	120,498	142,656
38	Other Income	1,254	1,401	1,542
39	Interest Expense	-	-	-
40	Other Expense	(1,692)	(1,269)	-
41	Gain (loss) on Disposal of Equip	(758)	-	-
42	<b>Total Other Income (Expense)</b>	<u>\$ 47,024</u>	<u>\$ 120,631</u>	<u>\$ 144,198</u>
43	<b>Net Profit (Loss)</b>	<u><u>\$ 430,893</u></u>	<u><u>\$ 699,821</u></u>	<u><u>\$ 725,335</u></u>

SUPPORTING SCHEDULES:  
Workpapers/Trial Balance Mapping Water and Sewer tjb.xls

RECAP SCHEDULES:  
A-2

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Comparative Statements of Cash Flows

Exhibit  
Schedule E-3  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2010	Prior Year Ended 12/31/2009	Prior Year Ended 12/31/2008
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	\$ 430,893	\$ 699,821	\$ 725,335
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	477,551	462,927	431,892
8	Other - Adjustments	(25,839)	(17,958)	(22,164)
9	Changes in Certain Assets and Liabilities:			
10	Accounts Receivable	990	(9,609)	(7,236)
11	Unbilled Revenues	-	-	-
12	Materials and Supplies Inventory	-	-	-
13	Prepaid Expenses	1,596	5,712	(6,509)
14	Deferred Charges	-	-	-
15	Notes Receivable	(152,632)	2,773,973	(247,711)
16	Accounts Payable	116,845	37,964	(43,443)
17	Intercompany payable	-	-	-
18	Customer Meter Deposits	-	-	-
19	Taxes Payable	2,039	357	452
20	Other assets and liabilities	11,046	(18,959)	4,401
21				
22	Net Cash Flow provided by Operating Activities	\$ 862,489	\$ 3,934,229	\$ 835,016
23	Cash Flow From Investing Activities:			
24	Capital Expenditures	(476,612)	(506,824)	(558,065)
25	Plant Held for Future Use	-	-	-
26	Changes in debt reserve fund	-	-	-
27	Net Cash Flows from Investing Activities	\$ (476,612)	\$ (506,824)	\$ (558,065)
28	Cash Flow From Financing Activities			
29	Change in Restricted Cash	-	-	-
30	Proceeds from Long-Term Debt	-	-	-
31	Net receipt of contributions in aid of construction	-	-	-
32	Net receipts of advances in aid of construction	(10,401)	(38,951)	-
33	Repayments of Long-Term Debt	-	-	-
34	Distributions/Dividends Paid	(299,999)	(3,439,998)	(250,009)
35	Deferred Financing Costs	-	-	-
36	Paid in Capital	-	-	-
37	Net Cash Flows Provided by Financing Activities	\$ (310,400)	\$ (3,478,949)	\$ (250,009)
38	Increase(decrease) in Cash and Cash Equivalents	75,477	(51,544)	26,942
39	Cash and Cash Equivalents at Beginning of Year	92,659	144,203	117,261
40	Cash and Cash Equivalents at End of Year	\$ 168,136	\$ 92,659	\$ 144,203

SUPPORTING SCHEDULES:  
Workpapers/cashflow water.xls

RECAP SCHEDULES:  
A-5

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Statement of Changes in Stockholder's Equity

Exhibit  
Schedule E-4  
Page 1  
Witness: Bourassa

Line

No.

	<u>Common</u>	<u>Additional</u>	<u>Retained</u>	
	<u>Stock</u>	<u>Paid-In-Capital</u>	<u>Earnings</u>	<u>Total</u>
1				
2				
3				
4	Balance, December 31, 2007	\$ 107,416	\$ 7,467,861	\$ 6,718,708 \$ 14,293,986
5	Addnl Paid In Capital Adjustment			-
6	Distributions/Dividends		(250,009)	(250,009)
7	Rounding		3	3
8	Net Income		725,335	725,335
9				
10	Balance, December 31, 2008	\$ 107,416	\$ 7,467,861	\$ 7,194,037 \$ 14,769,314
11	Addnl Paid In Capital			-
12	Distributions/Dividends		(3,439,998)	(3,439,998)
13	Rounding		(2)	(2)
14	Net Income		699,821	699,821
15				
16	Balance, December 31, 2009	\$ 107,416	\$ 7,467,861	\$ 4,453,858 \$ 12,029,135
17	Addnl Paid In Capital			-
18	Distributions/Dividends		(299,999)	(299,999)
19	Rounding		(1)	(1)
20	Net Income		430,893	430,893
21				
22	Balance, December 31, 2010	\$ 107,416	\$ 7,467,861	\$ 4,584,751 \$ 12,160,028

SUPPORTING SCHEDULES:

RECAP SCHEDULES:

E-1

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**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Detail of Plant in Service

Exhibit  
Schedule E-5  
Page 1  
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2009	Plant Additions, Reclassifications or Retirements	Plant Balance at 12/31/2010
1					
2	301	Organization Cost		\$ -	
3	302	Franchise Cost		-	
4	303	Land and Land Rights	97,637	-	97,637
5	304	Structures and Improvements	2,284,496	7,500	2,291,996
6	305	Collecting and Impounding Res.		-	
7	306	Lake River and Other Intakes		-	
8	307	Wells and Springs	1,692,115	97,217	1,789,332
9	308	Infiltration Galleries and Tunnels		-	
10	309	Supply Mains		-	
11	310	Power Generation Equipment		-	
12	311	Electric Pumping Equipment	730,779	99,163	829,942
13	320	Water Treatment Equipment		-	
14	320	Water Treatment Equipment		-	
15	320.1	Water Treatment Plant		-	
16	320.2	Chemical Solution Feeders	2,678,929	28,643	2,707,572
17	330	Dist. Reservoirs & Standpipe		-	
18	330.1	Storage tanks		-	
19	330.2	Pressure Tanks	3,056,451	-	3,056,451
20	333	Services	4,321,228	177,591	4,498,820
21	334	Meters	974,840	36,478	1,011,318
22	335	Hydrants	891,614	-	891,614
23	336	Backflow Prevention Devices		-	
24	339	Other Plant and Miscellaneous Equipment		-	
25	340	Office Furniture and Fixtures	651,634	5,481	657,115
26	341	Transportation Equipment		-	
27	342	Stores Equipment		-	
28	343	Tools and Work Equipment		-	
29	344	Laboratory Equipment		-	
30	345	Power Operated Equipment		-	
31	346	Communications Equipment	35,000	24,539	59,539
32	347	Miscellaneous Equipment	13,239	-	13,239
33	348	Other Tangible Plant		-	
34		Plant Held for Future Use		-	
35		Rounding			-
36		TOTAL WATER PLANT	\$ 17,427,962	\$ 476,612	\$ 17,904,574

SUPPORTING SCHEDULES

Workpapers/Trial Balance Mapping Water and Sewer tjb.xls

RECAP SCHEDULES:

A-4

E-1

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Operating Statistics

Exhibit  
Schedule E-7  
Page 1  
Witness: Bouras

Line No.		Test Year Ended <u>12/31/2010</u>	Prior Year Ended <u>12/31/2009</u>	Prior Year Ended <u>12/31/2008</u>
1	<u>WATER STATISTICS:</u>			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	1,756,437	2,251,050	2,241,014
6				
7				
8				
9	Water Revenues from Customers:	\$ 1,976,508	\$ 2,046,872	\$ 2,039,761
10				
11				
12				
13				
14	Year End Number of Customers	10,188	10,193	10,187
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	172	221	220
19				
20				
21				
22	Annual Revenue per Year End Customer	\$ 194.00	\$ 200.81	\$ 200.23
23				
24	Pumping Cost Per 1,000 Gallons	\$ 0.1301	\$ 0.1114	\$ 0.1196
25	Purchased Water Cost per 1,000 Gallons	\$ -	\$ -	\$ -

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Taxes Charged to Operations

Exhibit  
Schedule E-8  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended <u>12/31/2010</u>	Prior Year Ended <u>12/31/2009</u>	Prior Year Ended <u>12/31/2008</u>
1	<u>Description</u>			
2				
3	State Income Taxes	\$ -	\$ -	\$ -
4	Federal Income Taxes	-	-	-
5	Payroll Taxes	1,818	1,568	1,835
6	Property Taxes	94,465	98,043	94,818
7				
8	Totals	<u>\$ 96,283</u>	<u>\$ 99,612</u>	<u>\$ 96,654</u>
9				
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**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Notes To Financial Statements

Exhibit  
Schedule E-9  
Page 1  
Witness: Bourassa

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See attached audited financial statements.



PIMA UTILITY COMPANY

FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

B A R R Y & M O O R E , P . C .

C E R T I F I E D P U B L I C A C C O U N T A N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Pima Utility Company

We have audited the accompanying balance sheets of *Pima Utility Company* as of December 31, 2010 and 2009, and the related statements of income, capitalization and cash flows for the years then ended. These financial statements are the responsibility of the management of *Pima Utility Company*. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Pima Utility Company* as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 22, 2011

*Barry & Moore, P.C.*

PIMA UTILITY COMPANY

BALANCE SHEETS  
DECEMBER 31, 2010 AND 2009

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
PLANT IN SERVICE AND UNDER CONSTRUCTION, NET	\$ 21,540	\$ 21,999
CURRENT ASSETS:		
Cash	169	92
Service customers receivable	479	431
Receivable from affiliate	872	1,835
Other assets	<u>0</u>	<u>2</u>
Total current assets	1,520	2,360
RESTRICTED FUNDS	2,425	957
DEFERRED CHARGES	<u>1,796</u>	<u>1,855</u>
	<u>\$ 27,281</u>	<u>\$ 27,171</u>
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 335	\$ 247
Accrued liabilities	455	454
Current portion of bonds payable	<u>505</u>	<u>470</u>
Total current liabilities	1,295	1,171
BONDS PAYABLE, NET OF CURRENT PORTION	5,620	6,125
ADVANCES IN AID OF CONSTRUCTION	660	683
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>274</u>	<u>335</u>
Total liabilities	<u>7,849</u>	<u>8,314</u>
CAPITALIZATION:		
Common stock; \$1 par value; 10,000,000 shares authorized; 180,041 shares issued and outstanding	180	180
Additional paid-in capital	10,801	10,801
Retained earnings	<u>8,451</u>	<u>7,876</u>
Total capitalization	<u>19,432</u>	<u>18,857</u>
	<u>\$ 27,281</u>	<u>\$ 27,171</u>

*See accompanying notes and auditors' report.*

PIMA UTILITY COMPANY

STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
REVENUE:		
Water	\$ 1,658	\$ 1,711
Wastewater	2,956	2,959
Irrigation	411	486
Excess capacity	1	2
Establishment fees	1	2
Other income	<u>48</u>	<u>9</u>
Total revenue	<u>5,075</u>	<u>5,169</u>
OPERATING EXPENSES:		
Salaries and employee benefits	931	827
Electricity	334	387
Repairs and maintenance	514	417
Chemicals	101	118
Testing, fees and permits	85	76
Insurance	52	82
Property taxes	259	257
Professional services	59	31
Administrative services	105	105
Other expense	<u>141</u>	<u>152</u>
Total operating expenses	<u>2,581</u>	<u>2,452</u>
Income before depreciation, amortization and interest	2,494	2,717
NON-OPERATING EXPENSES:		
Depreciation	1,148	1,188
Amortization	32	32
Interest expense, net	<u>439</u>	<u>399</u>
NET INCOME	<u>\$ 875</u>	<u>\$ 1,098</u>

*See accompanying notes and auditors' report.*

PIMA UTILITY COMPANY

STATEMENTS OF CAPITALIZATION  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

*In thousands*

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL CAPITALIZATION</u>
BALANCES, December 31, 2008	\$ 180	\$ 10,801	\$ 10,218	\$ 21,199
NET INCOME	0	0	1,098	1,098
DISTRIBUTIONS	<u>0</u>	<u>0</u>	<u>(3,440)</u>	<u>(3,440)</u>
BALANCES, December 31, 2009	\$ 180	\$ 10,801	\$ 7,876	\$ 18,857
NET INCOME	0	0	875	875
DISTRIBUTIONS	<u>0</u>	<u>0</u>	<u>(300)</u>	<u>(300)</u>
BALANCES, December 31, 2010	<u>\$ 180</u>	<u>\$ 10,801</u>	<u>\$ 8,451</u>	<u>\$ 19,432</u>

*See accompanying notes and auditors' report.*

PIMA UTILITY COMPANY

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 875	\$ 1,098
Adjustments to reconcile net income to net cash flows from operating activities-		
Amortization of bond issue costs	26	26
Depreciation and amortization	1,181	1,220
Loss on sale of assets	1	0
(Increase) decrease in-		
Service customers receivable	(48)	(11)
Other assets	2	5
Increase (decrease) in-		
Accounts payable	88	91
Accrued liabilities	<u>1</u>	<u>(34)</u>
Total adjustments	<u>1,251</u>	<u>1,297</u>
Net cash flows from operating activities	<u>2,126</u>	<u>2,395</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted funds	(1,468)	255
Decrease in receivable from affiliate	963	2,013
Plant additions	<u>(751)</u>	<u>(751)</u>
Net cash flows from investing activities	<u>(1,256)</u>	<u>1,517</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bonds payable	(470)	(440)
Advances in aid of construction	(23)	(84)
Distributions	<u>(300)</u>	<u>(3,440)</u>
Net cash flows from financing activities	<u>(793)</u>	<u>(3,964)</u>
INCREASE (DECREASE) IN CASH	77	(52)
CASH, beginning of year	<u>92</u>	<u>144</u>
CASH, end of year	<u>\$ 169</u>	<u>\$ 92</u>

*See accompanying notes and auditors' report.*

PIMA UTILITY COMPANY

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business Activity-

Pima Utility Company (Company), an Arizona corporation organized in 1972, provides water and wastewater services to substantially all of the homes in the Sun Lakes retirement community.

The rates for water and wastewater services are authorized by the Arizona Corporation Commission.

Recognition of Revenue and Expenses-

Revenue and expenses are recognized on the accrual method. Under this method, revenue is recognized when earned rather than when collected, and expenses are recognized when incurred rather than when paid.

Income Taxes-

As permitted by the *Income Taxes* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Company evaluates all tax positions as required by the *Contingencies* topic of the FASB ASC, which requires a more likely-than not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in the Company's tax return. Management believes the tax positions taken on the Company's tax returns are fairly stated. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2006.

The Company and its stockholders have elected to be taxed as an S corporation. In lieu of corporate income taxes, the stockholders are personally taxed on the Company's taxable income. Therefore, no provision or liability for income taxes has been included in these financial statements.

Plant in Service-

Plant in service is stated at original cost. All water assets are depreciated on the straight-line method at 3% annually. Wastewater assets are depreciated on the straight-line method over the following useful lives-

Collection system, manholes and cleanouts and service laterals	50 years
Lift stations	10 - 28 years
Treatment and disposal systems	20 years
Structures and improvements	4 - 20 years
Equipment	5 - 10 years
Effluent lines	10 - 50 years

Repairs and maintenance to plant in service are generally expensed as incurred. Expenditures determined to represent additions and improvements are capitalized.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Charges-

Deferred charges represent costs amortizable pursuant to rulings by the Arizona Corporation Commission over the following lives-

Bond issue costs	23.5 years
Allowance for funds used during construction	22 years
Deferred operating costs for 1996 and 1997	5 years
Deferred operating costs for 1998 and 1999	Pending
Rate hearing costs	Pending

Estimates-

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Long-Lived Assets-

The Company periodically evaluates the carrying value of the long-lived assets in accordance with the FASB ASC. Under the FASB ASC, long-lived assets and certain identifiable intangible assets to be held and used in operations are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company does not believe impairment exists at December 31, 2010.

Supplemental Cash Flow Information-

Interest paid totaled \$478,000 and \$510,000 in 2010 and 2009, respectively.



(2) PLANT IN SERVICE AND UNDER CONSTRUCTION, NET:

Plant in service and under construction, net consists of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Construction work-in progress	\$ <u>20</u>	\$ <u>0</u>
Land	<u>189</u>	<u>189</u>
Wastewater:		
Collection system	4,201	4,201
Manholes and cleanouts	1,792	1,718
Lift stations	1,589	1,527
Treatment and disposal systems	10,656	10,583
Service laterals	629	629
Structures and improvements	9	5
Equipment	341	327
Effluent lines	<u>538</u>	<u>536</u>
	<u>19,755</u>	<u>19,526</u>
Water:		
Mains	3,057	3,057
Services	4,499	4,321
Hydrants	892	892
Tanks	2,708	2,679
Water supply	1,789	1,692
Meters	1,011	975
Pumps	830	731
Equipment	730	700
Structures and improvements	<u>2,292</u>	<u>2,285</u>
	<u>17,808</u>	<u>17,332</u>
Total plant in service and under construction	37,772	37,047
Less accumulated depreciation	<u>16,232</u>	<u>15,048</u>
	<u>\$ 21,540</u>	<u>\$ 21,999</u>

(3) RESTRICTED FUNDS:

Restricted funds consist of investments held by a trustee to comply with the requirements of the Trust Indenture related to the Industrial Development Authority Bonds.

The restricted funds are invested in money markets and are recorded at cost in the following trustee accounts-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Reserve fund	\$ 953	\$ 952
Bond fund	<u>1,472</u>	<u>5</u>
	<u>\$ 2,425</u>	<u>\$ 957</u>

(4) DEFERRED CHARGES:

Deferred charges consist of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Bond issue costs, net of amortization	\$ 221	\$ 247
Allowance for funds used during construction, net of amortization	360	393
Deferred operating costs for 1996 and 1997	1	1
Deferred operating costs for 1998 and 1999	1,049	1,049
Rate hearing costs	<u>165</u>	<u>165</u>
	<u>\$ 1,796</u>	<u>\$ 1,855</u>

Pursuant to an order from the Arizona Corporation Commission, from 1996 to 1999, the Company was authorized to defer 30% of the incremental operating costs of the new wastewater treatment facilities.

(5) ACCRUED LIABILITIES:

Accrued liabilities consist of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Payroll and taxes	\$ 67	\$ 54
Sales tax	27	23
Property taxes	129	128
Regulatory taxes	10	10
Interest	<u>222</u>	<u>239</u>
	<u>\$ 455</u>	<u>\$ 454</u>

(6) BONDS PAYABLE:

In December, 1995, the Company received \$10,300,000 from the sale of Industrial Development Authority Bonds of Maricopa County, which financed the construction of the wastewater treatment facility.

The bonds bear interest at 7.25% and require annual debt service of approximately \$951,000 through July, 2019.

Annual principal payments are as follows-

<u>Year Ending</u> <u>December 31</u>	<i>In thousands</i>
2011	\$ 505
2012	545
2013	580
2014	625
2015	670
Thereafter	<u>3,200</u>
	<u>\$ 6,125</u>

(7) ADVANCES AND CONTRIBUTIONS IN AID OF CONSTRUCTION:

The advances in aid of construction contracts provide that a percentage of gross revenues from each applicable unit over a specified period will be paid to reimburse the customer for the cost of the water system.

Any unrefunded portion upon the contract expiration is transferred to contributions in aid of construction.

(8) INTEREST EXPENSE, NET:

Interest expense, net consists of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Interest income	\$ 48	\$ 121
Interest expense	(461)	(494)
Amortization of bond issue costs	<u>(26)</u>	<u>(26)</u>
	<u>\$ (439)</u>	<u>\$ (399)</u>

(9) FAIR VALUE OF FINANCIAL INSTRUMENTS:

In accordance with the *Fair Value Measurements and Disclosures* topic of the FASB ASC, the carrying amount reported in the balance sheet for current assets, restricted funds and current liabilities approximate fair values due to the short maturity of these instruments.

At December 31, 2010, the fair value of long-term debt was equal to the carrying amount.

(10) TRANSACTIONS WITH RELATED PARTIES:

On an ongoing basis, Pima Utility Company engages in certain business activities with affiliates which arise through the normal course of business.

The Company has an agreement with an affiliated developer where the developer pays a monthly fee to reserve capacity of the new wastewater treatment plant for its undeveloped lots. The Company earned \$1,000 and \$2,000 during 2010 and 2009, respectively, pursuant to this agreement.

The Company provides water services to affiliates for construction activity and golf courses. Revenue earned from these affiliates during 2010 and 2009 was \$59,000 and \$211,000, respectively.

The Company paid \$105,000 in 2010 and 2009, respectively, to an affiliate for administrative and accounting services.

The Company also advances excess funds to an affiliate. The advances are payable on demand and provide for monthly interest at the affiliates borrowing rate. The Company earned \$48,000 and \$120,000 of interest on the advances during 2010 and 2009, respectively. At December 31, 2010 and 2009, the outstanding receivable from affiliate was \$872,000 and \$1,835,000, respectively.

(11) RETIREMENT PLAN AND TRUST:

The Company and affiliated entities have a multi-employer trust profit sharing plan under Section 401 and 401(K) of the Internal Revenue Code. The Plan and Trust provides for retirement, disability and accidental benefits for eligible employees. The Company matches employee contributions at a rate of 25%. The Plan and Trust also provides for additional contributions by the employer, at management's discretion. As of December 31, 2010, the Company had no liability to the Plan and Trust for matching or additional contributions. The Company contributed approximately \$9,000 in 2010 and 2009, respectively to the Plan.

(12) CONCENTRATIONS OF CREDIT RISK:

The *Risk and Uncertainties* topic of the FASB ASC requires certain disclosures relating to concentrations and the general risk associated with those concentrations.

Substantially all customers reside within the Sun Lakes community.

(13) SUBSEQUENT EVENTS:

Management has evaluated all subsequent events through the date the financial statements were available to be issued on April 22, 2011. No subsequent events occurred during this period which require adjustment to or disclosure in the financial statements.

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Projected Income Statements - Present & Proposed Rates

Exhibit  
Schedule F-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2011	At Proposed Rates Year Ended 12/31/2011
1	<b>Revenues</b>			
2	Metered Water Revenues	\$ 1,976,508	\$ 1,970,366	\$ 2,993,931
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	7,261	7,261	7,261
5		<u>\$ 1,983,769</u>	<u>\$ 1,977,627</u>	<u>\$ 3,001,192</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 220,827	\$ 220,827	\$ 220,827
8	Salaries and Wages - Officers and Directors	90,294	90,294	90,294
9	Employee Pensions and Benefits	64,900	64,900	64,900
10	Purchased Water	-	-	-
11	Purchased Power	228,469	252,453	252,453
12	Chemicals	16,721	16,721	16,721
13	Repairs and Maintenance	100,885	100,885	100,885
14	Office Supplies and Expense	67,321	67,321	67,321
15	Contractual Services - Engineering	5,283	5,283	5,283
16	Contractual Services - Accounting	3,067	3,067	3,067
17	Contractual Services - Legal	14,175	14,175	14,175
18	Contractual Services - Other	54,797	54,797	54,797
19	Contractual Services - Water Testing	18,737	18,737	18,737
20	Rents - Equipment	3,203	3,203	3,203
21	Transportation Expenses	44,637	44,637	44,637
22	Insurance - Vehicle	17,464	17,464	17,464
23	Insurance - General Liability	10,840	10,840	10,840
24	Insurance - Worker's Comp	1,009	1,009	1,009
25	Regulatory Commission Expense	3,671	3,671	3,671
26	Regulatory Commission Expense - Rate Case	-	50,000	50,000
27	Bad Debt Expense	4,766	4,766	4,766
28	Miscellaneous Expense	15,934	15,934	15,934
29	Depreciation Expense	477,551	686,998	686,998
30	Taxes Other Than Income	40,883	40,883	40,883
31	Property Taxes	94,465	83,358	97,066
32	Income Tax	-	(27,157)	253,724
33				
34	<b>Total Operating Expenses</b>	<u>\$ 1,599,900</u>	<u>\$ 1,845,067</u>	<u>\$ 2,139,657</u>
35	<b>Operating Income</b>	<u>\$ 383,869</u>	<u>\$ 132,560</u>	<u>\$ 861,536</u>
36	<b>Other Income (Expense)</b>			
37	Interest Income	48,219	48,219	48,219
38	Other income	1,254	1,254	1,254
39	Interest Expense	-	(203,041)	(203,041)
40	Other Expense	(1,692)	(1,692)	(1,692)
41	Gain/Loss Sale of Fixed Assets	(758)	(758)	(758)
42	<b>Total Other Income (Expense)</b>	<u>\$ 47,024</u>	<u>\$ (156,017)</u>	<u>\$ (156,017)</u>
43	<b>Net Profit (Loss)</b>	<u>\$ 430,893</u>	<u>\$ (23,457)</u>	<u>\$ 705,518</u>
44				
45				
46	<u>SUPPORTING SCHEDULES:</u>			
47	C-1			
48				
49				
50				

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Projected Statements of Changes in Financial Position  
Present and Proposed Rates

Exhibit  
Schedule F-2  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2010	At Present Rates Year Ended 12/31/2011	At Proposed Rates Year Ended 12/31/2011
1				
2				
3				
4				
5	Cash Flows from Operating Activities			
6	Net Income	\$ 430,893	\$ (23,457)	\$ 705,518
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	477,551	686,998	686,998
10	Other	(25,839)		
11	Changes in Certain Assets and Liabilities:			
12	Accounts Receivable	990		
13	Unbilled Revenues	-		
14	Materials and Supplies Inventory	-		
15	Prepaid Expenses	1,596		
16	Deferred Charges	-		
17	Notes Receivable	(152,632)		
18	Accounts Payable	116,845		
19	Intercompany payable	-		
20	Customer Meter Deposits	-		
21	Taxes Payable	2,039		
22	Other assets and liabilities	11,046		
23	Net Cash Flow provided by Operating Activities	\$ 862,489	\$ 663,540	\$ 1,392,516
24	Cash Flow From Investing Activities:			
25	Capital Expenditures	(476,612)	(378,600)	(378,600)
26	Plant Held for Future Use	-		
27	Changes in debt reserve fund	-		
28	Net Cash Flows from Investing Activities	\$ (476,612)	\$ (378,600)	\$ (378,600)
29	Cash Flow From Financing Activities			
30	Change in Restricted Cash	-		
31	Change in net amounts due to parent and affiliates	-		
32	Net Receipt contributions in aid of construction	-	-	-
33	Net receipts of advances in aid of construction	(10,401)	(10,401)	(10,401)
34	Repayments of Long-Term Debt	-	1,755,000	1,755,000
35	Dividends Paid	(299,999)	(299,999)	(299,999)
36	Deferred Financing Costs	-	-	-
37	Paid in Capital	-	-	-
38	Net Cash Flows Provided by Financing Activities	\$ (310,400)	\$ 1,444,600	\$ 1,444,600
39	Increase(decrease) in Cash and Cash Equivalents	75,477	1,729,540	2,458,516
40	Cash and Cash Equivalents at Beginning of Year	92,659	168,136	168,136
41	Cash and Cash Equivalents at End of Year	\$ 168,136	\$ 1,897,676	\$ 2,626,652

**SUPPORTING SCHEDULES:**

E-3

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Projected Construction Requirements

Exhibit  
Schedule F-3  
Page 1  
Witness: Bourassa

Line

No.

1

2

Account

3

Number

Plant Asset:

Test Year

2011

2012

2013

4

301

Organization Cost

\$

-

\$

-

\$

-

\$

-

5

302

Franchise Cost

-

-

-

-

6

303

Land and Land Rights

-

-

-

-

7

304

Structures and Improvements

7,500

7,500

7,500

7,500

8

305

Collecting and Impounding Res.

-

-

-

-

9

306

Lake River and Other Intakes

-

-

-

-

10

307

Wells and Springs

97,217

100,000

100,000

100,000

11

308

Infiltration Galleries and Tunnels

-

-

-

-

12

309

Supply Mains

-

-

-

-

13

310

Power Generation Equipment

-

-

-

-

14

311

Electric Pumping Equipment

99,163

100

100

100

15

320

Water Treatment Equipment

-

-

-

-

16

320

Water Treatment Equipment

-

-

-

-

17

320.1

Water Treatment Plant

-

-

-

-

18

320.2

Chemical Solution Feeders

28,643

30,000

30,000

30,000

19

330

Dist. Reservoirs & Standpipe

-

-

-

-

20

330.1

Storage tanks

-

-

-

-

21

330.2

Pressure Tanks

-

-

-

-

22

333

Services

177,591

175,000

175,000

175,000

23

334

Meters

36,478

35,000

35,000

35,000

24

335

Hydrants

-

-

-

-

25

336

Backflow Prevention Devices

-

-

-

-

26

339

Other Plant and Miscellaneous Equipment

-

-

-

-

27

340

Office Furniture and Fixtures

5,481

6,000

6,000

6,000

28

341

Transportation Equipment

-

-

-

-

29

342

Stores Equipment

-

-

-

-

30

343

Tools and Work Equipment

-

-

-

-

31

344

Laboratory Equipment

-

-

-

-

32

345

Power Operated Equipment

-

-

-

-

33

346

Communications Equipment

24,539

25,000

25,000

25,000

34

347

Miscellaneous Equipment

-

-

-

-

35

348

Other Tangible Plant

-

-

-

-

36

37

Total

\$

476,612

\$

378,600

\$

378,600

\$

378,600

38

39

40

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Assumptions Used in Rate Filing

Exhibit  
Schedule F-4  
Page 1  
Witness: Bourassa

Line

No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue modified for ratemaking.
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
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- 40



**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Cost of Service Study, Using Commodity Demand Method  
Operating Margins at Present Rates

Exhibit  
Schedule G-1  
Page 1  
Witness: Bourassa

Line No.	Meter Size->	Meter Size						
		Totals	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	Irrigation
1	Water Revenues	\$ 1,983,814	\$ 1,300,343	\$ 1,819	\$ 145,542	\$ 10,567	\$ 208,085	\$ 317,458
2	Revenue Annualizations	(6,142)	(807)	-	1,735	(127)	381	(7,324)
3	Misc. Revenues <sup>1</sup>	7,261	6,988	3	190	8	69	3
4	Reconciliation H-1 to C-1 <sup>1</sup>	(7,306)	(7,031)	(3)	(191)	(8)	(70)	(3)
5	Total Revenues	\$ 1,977,628	\$ 1,299,493	\$ 1,819	\$ 147,276	\$ 10,440	\$ 208,466	\$ 310,134
6								
7	Operating Expenses <sup>2</sup>	\$ 1,101,869	\$ 807,174	\$ 665	\$ 51,476	\$ 3,783	\$ 38,026	\$ 200,744
8	Depreciation and							
9	Amortization <sup>2</sup>	686,998	570,095	354	32,065	2,356	34,698	47,430
10	Property Tax <sup>3</sup>	83,358	54,774	77	6,208	440	8,787	13,072
11	Income Tax <sup>4</sup>	(27,157)	(85,886)	174	13,650	914	33,029	10,961
12	Total Operating Expenses	\$ 1,845,067	\$ 1,346,158	\$ 1,270	\$ 103,399	\$ 7,493	\$ 114,540	\$ 272,207
13	Operating Income	\$ 132,561	\$ (46,665)	\$ 549	\$ 43,877	\$ 2,948	\$ 93,926	\$ 37,927
14	Interest Expense <sup>5</sup>	203,041	176,234	96	8,450	577	8,204	9,480
15	Net Income	\$ (70,481)	\$ (222,899)	\$ 452	\$ 35,427	\$ 2,371	\$ 85,721	\$ 28,447
16	Rate Base <sup>6</sup>	\$ 9,097,529	\$ 7,896,397	\$ 4,321	\$ 378,609	\$ 25,837	\$ 367,605	\$ 424,761
17	Return on Rate Base <sup>7</sup>	1.46%	-0.59%	12.70%	11.59%	11.41%	25.55%	8.93%
18								
19	Percent of Total Customers		96.24%	0.04%	2.62%	0.11%	0.95%	0.04%
20								
21								

<sup>1</sup> Allocated based on customer counts.

<sup>2</sup> Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.

<sup>3</sup> Property Taxes allocation based on Revenues

<sup>4</sup> Income Tax from Schedule C-1, at Present Rates. Income Taxes allocated based on taxable income

<sup>5</sup> Interest Synchronized Interest Expense. Allocation based on Rate Base

<sup>6</sup> Rate Base computations are shown on Schedule G-3, Page 1

<sup>7</sup> Operating Income Divided by Rate Base

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Cost of Service Study, Using Commodity Demand Method  
Operating Margins at Proposed Rates

Exhibit  
Schedule G-2  
Page 1  
Witness: Bourassa

Line No.	Meter Size->	Meter Size						
		Totals	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	Irrigation
1	Water Revenues	\$ 2,999,688	\$ 1,837,649	\$ 3,038	\$ 213,985	\$ 15,582	\$ 321,587	\$ 607,847
2	Revenue Annualizations	(5,712)	(1,186)	-	2,468	(172)	501	(7,324)
3	Misc. Revenues <sup>1</sup>	7,261	6,988	3	190	8	69	3
4	Reconciliation H-1 to C-1 <sup>1</sup>	(45)	(43)	(0)	(1)	(0)	(0)	(0)
5	Total Revenues	\$ 3,001,192	\$ 1,843,409	\$ 3,040	\$ 216,643	\$ 15,418	\$ 322,156	\$ 600,526
6								
7	Operating Expenses <sup>2</sup>	\$ 1,101,869	\$ 807,174	\$ 665	\$ 51,476	\$ 3,783	\$ 38,026	\$ 200,744
8	Depreciation and							
9	Amortization <sup>2</sup>	686,998	570,095	354	32,065	2,356	34,698	47,430
10	Property Tax <sup>3</sup>	97,066	59,620	98	7,007	499	10,419	19,422
11	Income Tax <sup>4</sup>	253,724	64,051	508	32,722	2,282	64,197	89,964
12	Total Operating Expenses	\$ 2,139,657	\$ 1,500,941	\$ 1,626	\$ 123,270	\$ 8,919	\$ 147,340	\$ 357,561
13	Operating Income	\$ 861,536	\$ 342,468	\$ 1,415	\$ 93,373	\$ 6,499	\$ 174,816	\$ 242,965
14	Interest Expense <sup>5</sup>	203,041	176,234	96	8,450	577	8,204	9,480
15	Net Income	\$ 658,494	\$ 166,234	\$ 1,318	\$ 84,923	\$ 5,922	\$ 166,612	\$ 233,485
16	Rate Base <sup>6</sup>	\$ 9,097,529	\$ 7,896,397	\$ 4,321	\$ 378,609	\$ 25,837	\$ 367,605	\$ 424,761
17	Return on Rate Base <sup>7</sup>	9.47%	4.34%	32.75%	24.66%	25.15%	47.56%	57.20%
18								
19	Percent of Total Customers		96.241%	0.039%	2.621%	0.108%	0.952%	0.039%
20								
21								

<sup>1</sup> Allocated based on customer counts.

<sup>2</sup> Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.

<sup>3</sup> Property Taxes allocation based on Revenues

<sup>4</sup> Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income

<sup>5</sup> Interest Synchronized Interest Expense. Allocation based on Rate Base

<sup>6</sup> Rate Base computations are shown on Schedule G-3, Page 1

<sup>7</sup> Operating Income Divided by Rate Base

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Cost of Service Study Using Commodity / Demand Method  
Allocation of Assets to Customer Classes

Exhibit  
Schedule G-3  
Page 1  
Witness: Bourassa

Line No.	Totals	5/8 x 3/4"	3/4"	1"	1 1/2"	2"	Irrigation	Totals
1	<u>Plant, Minus Accumulated Depreciation, Advances and Contributions in Aid, Meter Deposits, and Deferred Income Tax (from Schedule G-5, Page 1)</u>							
2	Commodity	\$ 586,627	\$ 259,723	\$ 511	\$ 31,987	\$ 2,488	\$ 15,086	\$ 276,831
3	Demand	3,359,374	2,798,646	1,713	190,525	15,699	221,494	3,359,374
4	Customer	741,926	714,035	291	19,444	801	7,064	741,926
5	Service	3,848,091	3,655,542	1,491	110,729	5,069	67,452	3,848,091
6	Meter	561,511	468,451	314	25,924	1,780	56,509	561,511
7	Totals	\$ 9,097,529	\$ 7,896,397	\$ 4,321	\$ 378,609	\$ 25,837	\$ 367,605	\$ 9,097,529
8								
9								
10	Net Rate Base	\$ 9,097,529	\$ 7,896,397	\$ 4,321	\$ 378,609	\$ 25,837	\$ 367,605	\$ 9,097,529
11								
12	Allocation %	100.00%	86.80%	0.05%	4.16%	0.28%	4.04%	100.00%
13								

Exhibit  
Schedule G-4  
Page 1  
Witness: Bourassa

23

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Cost of Service Study, Using Commodity Demand Method  
Summary of Allocation of Expenses to Customer Classes

Exhibit  
Schedule G-4  
Page 2  
Witness: Bourassa

Line No.		Totals	5/8 x 3/4"	3/4"	1"	1 1/2"	2"	Irrigation
1	Commodity	\$ 463,825	\$ 174,465	\$ 343	\$ 21,487	\$ 1,672	\$ 10,134	\$ 185,957
2	Demand	707,601	589,492	361	40,131	3,307	46,654	27,656
3	Customer	383,723	369,298	151	10,056	414	3,653	151
4	Service	156,815	148,968	61	4,512	207	2,749	318
5	Meter	76,903	64,158	43	3,551	244	7,739	1,169
6								
7								
8	Totals	\$ 1,788,866	\$ 1,346,381	\$ 958	\$ 79,737	\$ 5,843	\$ 70,930	\$ 215,251
9								
10								
11								
12								
13	Total Expenses (excluding Income Tax and							
14	Property Taxes)	\$ 1,788,866	\$ 1,346,381	\$ 958	\$ 79,737	\$ 5,843	\$ 70,930	\$ 215,251
15								
16	Property Taxes, Allocated on Schedules G-1 & G-2	\$ 83,358						
17	Income Tax, Allocated on Schedules G-1 & G-2	(27,157)						
18	Total Adjusted TY Expenses	\$ 1,845,067						
19								

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Cost of Service Study, Using Commodity Demand Method  
Allocation of Rate Base by Function

Exhibit  
Schedule G-5  
Page 1  
Witness: Bourassa

Line No.		<u>Adjusted</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>	<u>Meter</u>	<u>Service</u>	<u>Totals</u>
1	<u>Rate Base</u>							
2	Plant minus (Accumulated Depreciation	\$ 9,097,529	\$ 3,359,374	\$ 586,627	\$ 741,926	\$ 561,511	\$ 3,848,091	\$ 9,097,529
3	Contributions in Aid of Construction							
4	Advances in Aid of Construction,							
5	Meter Deposits and Deferred Income Tax)							
6								
7								
8								
9		<u>9,097,529</u>	<u>3,359,374</u>	<u>586,627</u>	<u>741,926</u>	<u>561,511</u>	<u>3,848,091</u>	<u>9,097,529</u>
10								
11								
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**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Allocation of Plant, Less Contributions and Advances in Aid of  
Construction, Meter Deposits and Accumulated Depreciation to Functions

Exhibit  
Schedule G-5  
Page 2  
Witness: Bourassa

Line No.	Account No.	Description	Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Demand	Commodity	Customer	Meter	Service
1	Intangible									
2	301	Organization	\$ -		\$ -					
3	302	Franchises	-		-					
4										
5	<b>Subtotal Intangible</b>		-		-	-	-	-	-	-
6										
7	<b>Source of Supply &amp; Pumping Plant</b>									
8	303	Land and Land Rights	\$ 97,637		\$ 97,637	\$ 97,637	\$ -	\$ -	\$ -	\$ -
9	304	Structures and Improvements	315,125	139,450	175,676	175,676	-	-	-	-
10	305	Collecting and Impounding Res.	-	-	-	-	-	-	-	-
11	306	Lakes, Rivers, Other Intakes	-	-	-	-	-	-	-	-
12	307	Wells and Springs	606,699	261,440	345,258	276,207	69,052	-	-	-
13	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
14	309	Supply Mains	-	-	-	-	-	-	-	-
15	310	Power Generation Equipment	-	-	-	-	-	-	-	-
16	311	Electric Pumping Equipment	2,263,801	369,989	1,893,812	1,515,049	378,762	-	-	-
17	<b>Subtotal Source of Supply &amp; Pumping Plant</b>		\$ 3,283,262	\$ 770,880	\$ 2,512,383	\$ 2,064,569	\$ 447,814	\$ -	\$ -	\$ -
18										
19	<b>Water Treatment</b>									
20	320.2	Water Treat. Equip. - Chem Sol Feeder	\$ 58,255	\$ 9,890	\$ 48,365	\$ 38,692	\$ 9,673	-	-	-
21	<b>Subtotal Water Treatment</b>		\$ 58,255	\$ 9,890	\$ 48,365	\$ 38,692	\$ 9,673	\$ -	\$ -	\$ -
22										
23	<b>Transmission and Distribution Plant</b>									
24	330	Distribution Reservoirs & Standpipe	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	-
25	330.1	Storage tanks	1,102,197	490,208	611,989	550,790	61,199	-	-	-
26	330.2	Pressure Tanks	73,937	24,279	49,658	44,692	4,966	-	-	-
27	331	Transmission and Distribution Mains	2,916,048	1,625,867	1,290,182	1,161,164	129,018	-	-	-
28	333	Services	4,709,148	861,057	3,848,091	-	-	-	-	3,848,091
29	334	Meters	923,202	361,692	561,511	-	-	-	561,511	-
30	335	Hydrants	887,381	550,134	337,246	-	-	337,246	-	-
31	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
32	339	Other Plant and Miscellaneous Equip.	-	-	-	-	-	-	-	-
33	<b>Subtotal Transmission and Distribution Plant</b>		\$ 10,611,913	\$ 3,913,236	\$ 6,698,677	\$ 1,756,646	\$ 195,183	\$ 337,246	\$ 561,511	\$ 3,848,091
34										
35	<b>General Plant</b>									
36	340	Office Furniture and Fixtures	\$ 4,239	\$ 110	\$ 4,129	-	-	\$ 4,129	-	-
37	340.1	Computers and Software	28,479	278	28,201	-	-	28,201	-	-
38	341	Transportation Equipment	61,635	(51,073)	112,708	28,177	-	84,531	-	-
39	342	Stores Equipment	-	-	-	-	-	-	-	-
40	343	Tools and Work Equipment	134,506	34,251	100,255	25,064	-	75,191	-	-
41	344	Laboratory Equipment	-	-	-	-	-	-	-	-
42	345	Power Operated Equipment	124,899	34,114	90,785	-	-	90,785	-	-
43	346	Communications Equipment	238,939	76,482	162,457	40,614	-	121,843	-	-

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Allocation of Plant, Less Contributions and Advances in Aid of  
Construction, Meter Deposits and Accumulated Depreciation to Functions

Exhibit  
Schedule G-5  
Page 2.1  
Witness: Bourassa

Line	Account		Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Demand	Commodity	Customer	Meter	Service
No.	No.	Description								
1		<b>General Plant Continued</b>								
2	347	Miscellaneous Equipment	-	-	-					
3	348	Other Tangible Plant								
4		<b>Subtotal General Plant</b>	\$ 592,698	\$ 94,163	\$ 498,535	\$ 93,855	\$ -	\$ 404,680	\$ -	\$ -
5		<b>Total Plant</b>	\$ 14,546,128	\$ 4,788,169	\$ 9,757,959	\$ 3,953,761	\$ 652,670	\$ 741,926	\$ 561,511	\$ 3,848,091
6										
7		Contributions in Aid of Construction, Net	(286,194)		(286,194)	(257,575)	(28,619)	-		
8		Advances in Aid of Construction	(374,236)		(374,236)	(336,812)	(37,424)			
9		Meter Deposits	-		-					
10			-		-					
11			-		-					
12			-		-					
13		<b>Totals</b>	\$ 13,885,698	\$ 4,788,169	\$ 9,097,529	\$ 3,359,374	\$ 586,627	\$ 741,926	\$ 561,511	\$ 3,848,091
14		<b>Rate Bases (Plant -(AIAC, CIAC, Meter Deposits &amp; Accum. Depr.))</b>			\$ 9,097,529	\$ 3,359,374	\$ 586,627	\$ 741,926	\$ 561,511	\$ 3,848,091



**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Cost of Service Study, Using Commodity Demand Method  
Allocation of Expenses to Functions

Exhibit  
Schedule G-6  
Page 1  
Witness: Bourassa

Line No.	Description	Adjusted	Demand	Commodity	Customer	Meter	Service	Totals
1	Salaries and Wages <sup>1</sup>	\$ 220,827	\$88,330.68	\$44,165.34	\$88,330.68	\$ -	\$ -	\$ 220,826.69
2	Salaries and Wages - Officers & Dir <sup>1</sup>	90,294	36,118	18,059	36,118	-	-	90,294
3	Employee Pensions and Benefits <sup>1</sup>	64,900	25,960	12,980	25,960	-	-	64,900
4	Purchased Water <sup>1</sup>	-	-	-	-	-	-	-
5	Purchased Power <sup>1</sup>	252,453	-	252,453	-	-	-	252,453
6	Chemicals <sup>1</sup>	16,721	-	16,721	-	-	-	16,721
7	Repairs and Maintenance <sup>1</sup>	100,885	70,620	30,266	-	-	-	100,885
8	Office Supplies and Expense	67,321	-	-	67,321	-	-	67,321
9	Outside Services - Acctg & Eng.	8,350	3,340	1,670	3,340	-	-	8,350
10	Outside Services - Other <sup>1</sup>	54,797	21,919	10,959	21,919	-	-	54,797
11	Outside Services - Legal	14,175	5,670	2,835	5,670	-	-	14,175
12	Water Testing <sup>1</sup>	18,737	14,990	3,747	-	-	-	18,737
13	Rents - Equipment	3,203	801	-	2,402	-	-	3,203
14	Transportation Expenses <sup>1</sup>	44,637	11,159	-	33,478	-	-	44,637
15	Insurance - Vehicle	17,464	4,366	-	13,098	-	-	17,464
16	Insurance - General Liability	10,840	5,420	-	5,420	-	-	10,840
17	Insurance - Worker's Comp	1,009	404	202	404	-	-	1,009
18	Reg. Comm. Exp.	3,671	-	-	3,671	-	-	3,671
19	Reg. Comm. Exp. - Rate Case	50,000	45,000	-	5,000	-	-	50,000
20	Miscellaneous Expense	15,934	-	-	15,934	-	-	15,934
21	Bad Debt Expense	4,766	-	-	4,766	-	-	4,766
22	Depreciation Expense <sup>2</sup>	686,998	332,621	69,767	50,892	76,903	156,815	686,998
23	Taxes Other Than Income	40,883	40,883	-	-	-	-	40,883
24	Property Taxes, Allocated on Schedules G-1 & G-2	83,358	-	-	-	-	-	83,358
25	Income Tax, Allocated on Schedules G-1 & G-2	(27,157)	-	-	-	-	-	(27,157)
26								
27	Total	\$ 1,845,067	\$ 707,601	\$ 463,825	\$ 383,723	\$ 76,903	\$ 156,815	\$ 1,788,866
28								
29								

<sup>1</sup> See Schedule G-7, page 2.1.

<sup>2</sup> Depreciation allocation computed on Schedule G-6, Page 2.

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Allocation of Depreciation Expense to Functions

Exhibit  
Schedule G-6  
Page 2.0  
Witness: Bourassa

Line No.	Account No.	Description	Original Cost	Depreciation Rate	Depreciation Expense	Total Depr. Expense	Demand	Commodity	Customer	Meter	Service
1		<b>Intangible</b>									
2	301	Organization	\$ -		\$ -						
3	302	Franchises	-		-						
4											
5		<b>Subtotal Intangible</b>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
6											
7		<b>Source of Supply &amp; Pumping Plant</b>									
8	303	Land and Land Rights	\$ 97,637	0.000%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	304	Structures and Improvements	315,125	3.330%	10,494	10,494	10,494	-	-	-	-
10	305	Collecting and Impounding Res.	-	2.500%	-	-	-	-	-	-	-
11	306	Lakes, Rivers, Other Intakes	-	2.500%	-	-	-	-	-	-	-
12	307	Wells and Springs	606,699	3.330%	20,203	20,203	16,162	4,041	-	-	-
13	308	Infiltration Galleries and Tunnels	-	6.670%	-	-	-	-	-	-	-
14	309	Supply Mains	-	2.000%	-	-	-	-	-	-	-
15	310	Power Generation Equipment	-	5.000%	-	-	-	-	-	-	-
16	311	Electric Pumping Equipment	2,263,801	12.500%	282,975	282,975	226,380	56,595	-	-	-
17		<b>Subtotal Source of Supply &amp; Pumping Plant</b>	<u>\$ 3,283,262</u>		<u>\$ 313,672</u>	<u>\$ 313,672</u>	<u>\$ 253,036</u>	<u>\$ 60,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
18											
19		<b>Water Treatment</b>									
20	320.2	Water Treat. Equip. - Chem Sol Feeder	58,255	20.000%	11,651	11,651	9,321	2,330	-	-	-
21		<b>Subtotal Water Treatment</b>	<u>\$ 58,255</u>		<u>\$ 11,651</u>	<u>\$ 11,651</u>	<u>\$ 9,321</u>	<u>\$ 2,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
22											
23		<b>Transmission and Distribution Plant</b>									
24	330	Distribution Reservoirs & Standpipe	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25	330.1	Storage tanks	1,102,197	2.220%	24,469	24,469	22,022	2,447	-	-	-
26	330.2	Pressure Tanks	73,937	5.000%	3,697	3,697	3,327	370	-	-	-
27	331	Transmission and Distribution Mains	2,916,048	2.000%	58,321	58,321	52,489	5,832	-	-	-
28	333	Services	4,709,148	3.330%	156,815	156,815	-	-	-	-	156,815
29	334	Meters	923,202	8.330%	76,903	76,903	-	-	-	76,903	-
30	335	Hydrants	887,381	2.000%	17,748	17,748	-	-	17,748	-	-
31	336	Backflow Prevention Devices	-	6.670%	-	-	-	-	-	-	-
32	339	Other Plant and Miscellaneous Equipment	-	6.670%	-	-	-	-	-	-	-
33		<b>Subtotal Transmission and Distribution Plant</b>	<u>\$ 10,611,913</u>		<u>\$ 337,952</u>	<u>\$ 337,952</u>	<u>\$ 77,838</u>	<u>\$ 8,649</u>	<u>\$ 17,748</u>	<u>\$ 76,903</u>	<u>\$ 156,815</u>
34											
35		<b>General Plant</b>									
36	340	Office Furniture and Fixtures	\$ 4,239	6.670%	\$ 283	\$ 283	\$ -	\$ -	\$ 283	\$ -	\$ -
37	340.1	Computers and Software	28,479	20.000%	5,696	5,696	-	-	5,696	-	-
38	341	Transportation Equipment	61,635	20.000%	12,327	12,327	3,082	-	9,245	-	-
39	342	Stores Equipment	-	4.000%	-	-	-	-	-	-	-
40	343	Tools and Work Equipment	134,506	5.000%	6,725	6,725	6,053	673	-	-	-
41	344	Laboratory Equipment	-	10.000%	-	-	-	-	-	-	-
42	345	Power Operated Equipment	124,899	5.000%	6,245	6,245	5,620	624	-	-	-
43	346	Communications Equipment	238,939	10.000%	23,894	23,894	5,973	-	17,920	-	-

Exhibit  
Schedule G-6  
Page 2.1  
Witness: Bourassa

Exhibit  
Schedule G-6  
Page 2.1  
Witness: Bourassa

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Summary of Commodity - Demand Method Functions Factors

Exhibit  
Schedule G-7  
Page 1  
Witness: Bourassa

Line  
No.

	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	4"	6"	8"	Irrigation	Totals
1										
2 <u>Description</u>										
3 Commodity	44.274%	0.087%	5.453%	0.424%	2.572%	0.000%	0.000%	0.000%	47.19%	100.00%
4 Demand	83.309%	0.051%	5.671%	0.467%	6.593%	0.000%	0.000%	0.000%	3.91%	100.00%
5 Customer	96.241%	0.039%	2.621%	0.108%	0.952%	0.000%	0.000%	0.000%	0.04%	100.00%
6 Services	94.996%	0.039%	2.877%	0.132%	1.753%	0.000%	0.000%	0.000%	0.20%	100.00%
7 Meters	83.427%	0.056%	4.617%	0.317%	10.064%	0.000%	0.000%	0.000%	1.52%	100.00%

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12 SUPPORTING SCHEDULES  
13 G-7, page 3

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
**COMMODITY - DEMAND METHOD FUNCTION FACTORS**  
Plant and Depreciation Expense Allocations Functions

Exhibit  
Schedule G-7  
Page 2  
Witness: Bourassa

Line

No.

1					
2	<u>Description</u>	<u>Total</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>
3	Wells	1.00	0.80	0.20	
4	Pumps & Equipment	1.00	0.80	0.20	
5	Trans. & Dist. Mains	1.00	0.90	0.10	
6	Structures & Improv.	1.00	1.00		
7	Land	1.00	1.00		
8	Customer	1.00			1.00
9	Services	1.00			1.00
10	Meters	1.00			1.00
11	Fire Hydrants	1.00			1.00
12	Transportation Equip.	1.00	0.25		0.75
13	Office Furniture	1.00			1.00
14	Communication Equip.	1.00	0.25		0.75
15	Water Treatment Equip.	1.00	0.10	0.90	
16					
17					
18					
19					
20					

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Cost of Service Study, Using Commodity Demand Method  
Development Of Expense Allocation Factors

Exhibit  
Schedule G-7  
Page 2.1  
Witness: Bourassa

Line  
No.

1	Expense Type	Total	Demand	Commodity	Customer	Meters	Services
2	Repairs and Maintenance <sup>1</sup>	1.00	0.70	0.30	-	-	-
3	Contractual Services <sup>2</sup>	1.00	0.40	0.20	0.40	-	-
4	Purchased Power/Fuel for Power Prod. <sup>3</sup>	1.00	-	1.00	-	-	-
5	Purchased Water <sup>4</sup>	1.00	-	1.00	-	-	-
6	Transportation <sup>5</sup>	1.00	0.25	-	0.75	-	-
7	Chemicals <sup>6</sup>	1.00	-	1.00	-	-	-
8	Water Testing <sup>7</sup>	1.00	0.80	0.20	-	-	-
9	Salaries and Wages <sup>8</sup>	1.00	0.40	0.20	0.40	-	-

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- 13 <sup>1</sup> Estimated based on examination of costs in repairs and maintenance and professional judgement.  
14 <sup>2</sup> Estimated based on examination of costs included in contractual services and professional judgement.  
15 <sup>3</sup> 100% related to pumping and water production.  
16 <sup>4</sup> 100% related to pumping and water production.  
17 <sup>5</sup> Based on allocation of transportation equipment. See G-7, page 2.  
18 <sup>6</sup> 100% related to water production.  
19 <sup>7</sup> Based on allocation of well plant and equipment. See G-7, page 2.  
20 <sup>8</sup> The Company does not have recorded salaries and wages expense. See allocation of contractual services.

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**Pima Utility Company - Water Division**  
 Test Year Ended December 31, 2010  
 Cost of Service Study, Using Commodity Demand Method  
 Development of Class Allocation Factors

Exhibit  
 Schedule G-7  
 Page 3  
 Witness: Bourassa

**COMMODITY ALLOCATION FACTOR**

<u>Meter Size</u>	(a) Total Gallons (in 1,000's) <u>In Test Year</u>	Percent of <u>Total</u>
5/8" x 3/4"	768,141	44.27%
3/4"	1,511	0.09%
1"	94,602	5.45%
1-1/2"	7,359	0.42%
2"	44,617	2.57%
3"	-	0.00%
4"	-	0.00%
6"	-	0.00%
8"	-	0.00%
Irrigation	818,738	47.190%
<b>Totals</b>	<b>1,734,968</b>	<b>100.00%</b>

**DEMAND ALLOCATION FACTOR**

<u>Meter Size</u>	Number of Meters and/or <u>Services</u>	Equiv- alent <u>Weight</u>	Equivalent Number of Meters and/or <u>Services</u>	Percent of <u>Total</u>
5/8" x 3/4"	9,805	1.0	9,805	83.31%
3/4"	4	1.5	6	0.05%
1"	267	2.5	668	5.67%
1-1/2"	11	5.0	55	0.47%
2"	97	8.0	776	6.59%
3"	-	16.0	0	0.00%
4"	-	25.0	0	0.00%
6"	-	50.0	0	0.00%
8"	-	80.0	0	0.00%
Irrigation	4	115.0	460	3.91%
<b>Totals</b>	<b>10,188</b>		<b>11,770</b>	<b>100.00%</b>

**CUSTOMER ALLOCATION FACTOR**

<u>Meter Size</u>	Number of Meters	Percent of <u>Total</u>
5/8" x 3/4"	9,805	96.24%
3/4"	4	0.04%
1"	267	2.62%
1-1/2"	11	0.11%
2"	97	0.95%
3"	-	0.00%
4"	-	0.00%
6"	-	0.00%
8"	-	0.00%
Irrigation	4	0.04%
<b>Totals</b>	<b>10,188</b>	<b>100.00%</b>

**SERVICES ALLOCATION FACTOR (b)**

<u>Meter Size</u>	Number of <u>Services</u>	Install- ation <u>Cost</u>	Weighted Number of <u>Services</u>	Percent of <u>Total</u>
5/8" x 3/4"	9,805	\$ 445.00	4,363,225	95.00%
3/4"	4	445.00	1,780	0.04%
1"	267	495.00	132,165	2.88%
1-1/2"	11	550.00	6,050	0.13%
2"	97	830.00	80,510	1.75%
3"	0	1,165.00	0	0.00%
4"	0	1,670.00	0	0.00%
6"	0	2,330.00	0	0.00%
8"	0	2,330.00	0	0.00%
Irrigation	4	2,330.00	9,320	0.20%
<b>Totals</b>	<b>10,188</b>		<b>4,593,050</b>	<b>100.00%</b>

**METER ALLOCATION FACTOR (b)**

<u>Meter Size</u>	Number of Meters	Meter <u>Cost</u>	Weighted Dollars of Meters	Percent of <u>Total</u>
5/8" x 3/4"	9,805	\$ 155.00	1,519,775	83.43%
3/4"	4	255.00	1,020	0.06%
1"	267	315.00	84,105	4.62%
1-1/2"	11	525.00	5,775	0.32%
2"	97	1,890.00	183,330	10.06%
3"	0	2,545.00	0	0.00%
4"	0	3,645.00	0	0.00%
6"	0	6,920.00	0	0.00%
8"	0	6,920.00	0	0.00%
10"	4	6,920.00	27,680	1.52%
<b>Totals</b>	<b>10,188</b>		<b>1,821,685</b>	<b>100.00%</b>

(a) Includes customer and gallon sold annualization.

(b) Meter and Service Line cost from Arizona Corporation Commission Memo of February 21, 2008 from Marlin Scott, Jr.. Meter costs based on compound meters. Cost of service line and meter is based on costs allowed for a compound meter installation.

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Cost of Service Study Using Commodity / Demand Method  
Computation of Monthly Minimums for Customer, Service, Meter  
Using Function Costs and Expenses

Exhibit  
Schedule G-8  
Page 1  
Witness: Bourassa

Line No.					Customer	Service	Meter
1	Return on Rate Base	9.47%			70,260	53,175	364,414
2	Misc. Revenues				(43)		
3	Customer, Services and Meter Expenses (From Sch. G-6. Page 1)				383,723	156,815	76,903
4	Property Taxes				97,066		
5	Income Taxes				253,724		
6	Total Revenue Requirement / Customer, Meter & Service (Line 13+15+16+17)				804,730	209,990	441,317
7							
8	Customer Charge						
9	Number of Bills =	10,188	times	12	122,256		
10							
11	Charge per Bill				\$ 6.58		
12	(Customer Revenue Requirement divided by Annualized Number of Bills)						
13							
14	Service Line and Meter Charge					141,234	141,234
15	Equivalent 5/8 Meters	11,770	times	12			
16							
17	Charge per Equivalent Meter					\$ 1.49	\$ 3.12
18							
19							
20	<b>CUSTOMER CHARGE:</b>						
21	Monthly Minimum for 5/8 Inch Meter (with no water included in Minimum or Demand Charge)						
22	Charge per Bill					\$ 6.58	
23	Charge per Equivalent Service Line					1.49	
24	Charge per Equivalent Meter					3.12	
25	(Service and Meter Revenue Requirement divided by Annual Equivalent Meters)						
26	Monthly Minimum for 5/8 Inch Meter, <u>WITHOUT</u> Demand Charge Included					\$ 11.19	



Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Cost of Service Study Using Commodity / Demand Method  
Computation of Monthly Minimums for Demand Charge

Exhibit  
Schedule G-8  
Page 2  
Witness: Bourassa

Line

No. DEMAND CHARGE:

1				
2	Return on Rate Base	9.47%		318,133
3	Demand Expenses, from Schedule G-6, Page 1			707,601
4				
5	Totals			<u>1,025,734</u>
6	Total Revenue Requirement / Demand Component			
7	Equivalent Number of 5/8 Meters billings			<u>141,234</u>
8	Demand Charge for 5/8 Inch Meter			<u>\$ 7.26</u>
9				
10				
11	<u>Demand Charge Per Equivalent</u>			
12	5/8 Inch Meter	\$ 7.26	1.0 \$	7.26
13	3/4 Inch Meter	\$ 7.26	1.5 \$	10.89
14	1 Inch Meter	\$ 7.26	2.5 \$	18.16
15	1 1/2 Inch Meter	\$ 7.26	5.0 \$	36.31
16	2 Inch Meter	\$ 7.26	8.0 \$	58.10
17	3 Inch Meter	\$ 7.26	16.0 \$	116.20
18	4 Inch Meter	\$ 7.26	25.0 \$	181.57
19	6 Inch Meter	\$ 7.26	50.0 \$	363.13
20				
21				

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Cost of Service Study Using Commodity / Demand Method  
Computation Demand Charge and Commodity

Exhibit  
Schedule G-8  
Page 3  
Witness: Bourassa

Line No.		Commodity	Customer	Service	Meter	Demand
1	Return on Rate Base	55,554	70,260	364,414	53,175	318,133
2	Less: Miscellaneous Revenues		(7,261)			
3						
4	Expenses (From Sch. G-6. Page 1)	463,825	383,723	156,815	76,903	707,601
5	Property taxes		97,066			
6	Income Taxes		253,724			
7	Total Revenue Requirement by function	519,378	797,512	521,229	130,078	1,025,734
8	Gallons Sold (in 1,000's)(Zero Gallons in Minimum) (G-7, page 3)	1,734,968				
9	Computed Commodity Rate (line 7 divided by line 8)	\$ 0.2994				
10	Annualized Number of Bills (from G-8, page 1)		122,256			
11	Equivalent Meters and Service Lines (from G-8, page 1)			141,234	141,234	141,234
12	Customer Charge (line 7 divided by line 10)		\$ 6.52			
13	Meter, Service Line & Demand Charge (Line 7 divided by Line 11)			\$ 3.69	\$ 0.92	\$ 7.26
14	Total Monthly Minimum Charge for a 5/8 Inch Meter (Sum of Customer					
15	Service Line, Meter and Demand Charge on Lines 23 & Line 24)					\$ 18.40
16						
17						
18	<u>Monthly Minimum</u>	5/8" Monthly Minimum	Meter Ratio	Demand Charge		
19	5/8 Inch Meter	\$ 18.40	1.0	\$ 18.40		
20	3/4 Inch Meter	\$ 18.40	1.5	\$ 27.60		
21	1 Inch Meter	\$ 18.40	2.5	\$ 45.99		
22	1 1/2 Inch Meter	\$ 18.40	5.0	\$ 91.99		
23	2 Inch Meter	\$ 18.40	8.0	\$ 147.18		
24	3 Inch Meter	\$ 18.40	16.0	\$ 294.36		
25	4 Inch Meter	\$ 18.40	25.0	\$ 459.94		
26	6 Inch Meter	\$ 18.40	50.0	\$ 919.87		
27	8 Inch Meter	\$ 18.40	80.0	\$ 1,471.80		
28						
29						
30						
31						

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Cost of Service Study Using Commodity / Demand Method  
Computation Demand Charge and Commodity

Exhibit  
Schedule G-8  
Page 4  
Witness: Bourassa

Line  
No.

1	Single Tier Rate Design with Some Customer and Demand Costs recovered via the Commodity Rate			
2				
3	<u>Revenue Requirements Collected via Commodity Charge</u>			
4		Total		Portion of
5		<u>Rev. Req.</u>	<u>%</u>	<u>Rev. Req.</u>
6	Customer, Service, and Meter Costs	\$ 1,448,819	45%	\$ 651,968
7	Demand Costs	1,025,734	45%	461,580
8	Commodity Costs	519,378	100%	519,378
9	Total Costs to be Collected via Commodity			<u>\$ 1,632,927</u>
10	Gallons Sold (in 1,000's)(Zero Gallons in Minimum) (G-7, page 3)			1,734,968
11				
12	Commodity Charge (per 1,000 gallons) (Line 9 divided by line 10)			<u>\$ 0.941</u>
13				
14	<u>Revenue Requirement Collected</u>			
15				
16	Monthly Minimum 5/8 Meter			\$ 2,993,931
17	Total Revenue Requirement			(1,632,927)
18	Less: Portion of Revenue Requirement Collected via Commodity Charge			<u>\$ 1,361,004</u>
19	Balance to be Recovered through Monthly Minimum			45.46%
20				
21	Number of Equivalent 5/8 Inch Meter Billings (from G-8, page 1)			141,234
22				
23	Computed Monthly Minimum 5/8 Inch Meter Equivalent (line 19 divided by line 21)			<u>\$ 9.64</u>
24				
25				
26				
27	<u>Meter Size</u>	<u>5/8"</u>	<u>Meter</u>	<u>Monthly</u>
28	5/8 Inch Meter	Minimum	Ratio	Minimum
29	3/4 Inch Meter	\$ 9.64	1.0	\$ 9.64
30	1 Inch Meter	\$ 9.64	1.5	\$ 14.45
31	1 1/2 Inch Meter	\$ 9.64	2.5	\$ 24.09
32	2 Inch Meter	\$ 9.64	5.0	\$ 48.18
33	3 Inch Meter	\$ 9.64	8.0	\$ 77.09
34	4 Inch Meter	\$ 9.64	16.0	\$ 154.18
35	6 Inch Meter	\$ 9.64	25.0	\$ 240.91
36	8 Inch Meter	\$ 9.64	50.0	\$ 481.83
37	10 Inch Meter	\$ 9.64	80.0	\$ 770.92
38				

**Pima Utility Company - Water Division**  
Test Year Ended December 31, 2010  
Comparison of Proposed Rates to Computed Costs  
For a 5/8 Inch Residential Meter (With Required Operating Margin)

Exhibit  
Schedule G-9  
Page 1  
Witness: Bourassa

Column Number-->	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		
									(Col. 2 - Col. 8)		
									Total Revenues minus Total Charges & Costs		
Line No.	Water Usage	Revenues			Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	
1	0	\$ 7.36	\$ -	\$ 7.36	\$ 7.26	\$ 6.52	\$ 3.69	\$ 0.92	0	\$ 18.40	\$ (11.03)
2	1,000	7.36	0.96	8.33	7.26	6.52	3.69	0.92	0.299	18.70	(10.37)
3	2,000	7.36	1.93	9.29	7.26	6.52	3.69	0.92	0.599	19.00	(9.70)
4	3,000	7.36	2.89	10.26	7.26	6.52	3.69	0.92	0.898	19.30	(9.04)
5	4,000	7.36	3.86	11.22	7.26	6.52	3.69	0.92	1.197	19.59	(8.37)
6	5,000	7.36	5.22	12.59	7.26	6.52	3.69	0.92	1.497	19.89	(7.31)
7	6,000	7.36	6.59	13.95	7.26	6.52	3.69	0.92	1.796	20.19	(6.24)
8	7,000	7.36	7.95	15.32	7.26	6.52	3.69	0.92	2.096	20.49	(5.18)
9	8,000	7.36	9.32	16.68	7.26	6.52	3.69	0.92	2.395	20.79	(4.11)
10	9,000	7.36	10.68	18.05	7.26	6.52	3.69	0.92	2.694	21.09	(3.04)
11	10,000	7.36	12.05	19.41	7.26	6.52	3.69	0.92	2.994	21.39	(1.98)
12	12,000	7.36	15.78	23.14	7.26	6.52	3.69	0.92	3.592	21.99	1.15
13	14,000	7.36	19.51	26.87	7.26	6.52	3.69	0.92	4.191	22.59	4.28
14	16,000	7.36	23.24	30.60	7.26	6.52	3.69	0.92	4.790	23.19	7.41
15	18,000	7.36	26.97	34.33	7.26	6.52	3.69	0.92	5.388	23.79	10.54
16	20,000	7.36	30.70	38.06	7.26	6.52	3.69	0.92	5.987	24.38	13.68
17	25,000	7.36	40.02	47.38	7.26	6.52	3.69	0.92	7.484	25.88	21.50
18	30,000	7.36	49.34	56.71	7.26	6.52	3.69	0.92	8.981	27.38	29.33
19	35,000	7.36	58.67	66.03	7.26	6.52	3.69	0.92	10.478	28.88	37.16
20	40,000	7.36	67.99	75.36	7.26	6.52	3.69	0.92	11.974	30.37	44.98
21	45,000	7.36	77.31	84.68	7.26	6.52	3.69	0.92	13.471	31.87	52.81
22	50,000	7.36	86.64	94.00	7.26	6.52	3.69	0.92	14.968	33.37	60.64
23	60,000	7.36	105.29	112.65	7.26	6.52	3.69	0.92	17.962	36.36	76.29
24	70,000	7.36	123.93	131.30	7.26	6.52	3.69	0.92	20.955	39.35	91.95
25	80,000	7.36	142.58	149.95	7.26	6.52	3.69	0.92	23.949	42.35	107.60
26	90,000	7.36	161.23	168.59	7.26	6.52	3.69	0.92	26.942	45.34	123.25
27	100,000	7.36	179.88	187.24	7.26	6.52	3.69	0.92	29.936	48.33	138.91

**Pima Utility Company - Water Division**  
 Test Year Ended December 31, 2010  
 Comparison of Proposed Rates to Computed Costs  
 For a 3/4 Inch Commercial Meter (With Required Operating Margin)

Exhibit  
 Schedule G-9  
 Page 2  
 Witness: Bourassa

Column Number-->	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
									(Col. 2 - Col. 8)
									Total Revenues minus Total Charges & Costs
		Revenues				Service		Total	
Line	Water	Monthly		Demand	Customer	Line	Meter	Commodity	Charges
No.	Usage	Minimum	Commodity	Charges	Charges	Charges	Charges	Charges	& Costs
1	0	\$ 7.36	\$ -	\$ 7.36	\$ 10.89	\$ 9.78	\$ 5.54	\$ 1.38	0
2	1,000	7.36	1.36	8.73	10.89	9.78	5.54	1.38	0.299
3	2,000	7.36	2.73	10.09	10.89	9.78	5.54	1.38	0.599
4	3,000	7.36	4.09	11.46	10.89	9.78	5.54	1.38	0.898
5	4,000	7.36	5.46	12.82	10.89	9.78	5.54	1.38	1.197
6	5,000	7.36	6.82	14.19	10.89	9.78	5.54	1.38	1.497
7	6,000	7.36	8.19	15.55	10.89	9.78	5.54	1.38	1.796
8	7,000	7.36	9.55	16.92	10.89	9.78	5.54	1.38	2.096
9	8,000	7.36	10.92	18.28	10.89	9.78	5.54	1.38	2.395
10	9,000	7.36	12.28	19.65	10.89	9.78	5.54	1.38	2.694
11	10,000	7.36	13.65	21.01	10.89	9.78	5.54	1.38	2.994
12	12,000	7.36	17.38	24.74	10.89	9.78	5.54	1.38	3.592
13	14,000	7.36	21.11	28.47	10.89	9.78	5.54	1.38	4.191
14	16,000	7.36	24.84	32.20	10.89	9.78	5.54	1.38	4.790
15	18,000	7.36	28.57	35.93	10.89	9.78	5.54	1.38	5.388
16	20,000	7.36	32.30	39.66	10.89	9.78	5.54	1.38	5.987
17	25,000	7.36	41.62	48.98	10.89	9.78	5.54	1.38	7.484
18	30,000	7.36	50.94	58.31	10.89	9.78	5.54	1.38	8.981
19	35,000	7.36	60.27	67.63	10.89	9.78	5.54	1.38	10.478
20	40,000	7.36	69.59	76.96	10.89	9.78	5.54	1.38	11.974
21	45,000	7.36	78.91	86.28	10.89	9.78	5.54	1.38	13.471
22	50,000	7.36	88.24	95.60	10.89	9.78	5.54	1.38	14.968
23	60,000	7.36	106.89	114.25	10.89	9.78	5.54	1.38	17.962
24	70,000	7.36	125.53	132.90	10.89	9.78	5.54	1.38	20.955
25	80,000	7.36	144.18	151.55	10.89	9.78	5.54	1.38	23.949
26	90,000	7.36	162.83	170.19	10.89	9.78	5.54	1.38	26.942
27	100,000	7.36	181.48	188.84	10.89	9.78	5.54	1.38	29.936

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Comparison of Proposed Rates to Computed Costs  
For a 1 Inch Residential Meter (With Required Operating Margin)

Exhibit  
Schedule G-9  
Page 3  
Witness: Bourassa

Column Number-->	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) (Col. 2 - Col. 8)		
	Revenues				Service				Total	Total Revenues minus Total Charges & Costs	
Line No.	Water Usage	Monthly Minimum	Commodity	Total	Demand Charges	Customer Charges	Line Charges	Meter Charges	Commodity Charges	Charges & Costs	
1	0	\$ 20.67	\$ -	\$ 20.67	\$ 18.16	\$ 16.31	\$ 9.23	\$ 2.30	0	\$ 45.99	\$ (25.32)
2	1,000	20.67	1.36	22.04	18.16	16.31	9.23	2.30	0.299	46.29	(24.26)
3	2,000	20.67	2.73	23.40	18.16	16.31	9.23	2.30	0.599	46.59	(23.19)
4	3,000	20.67	4.09	24.77	18.16	16.31	9.23	2.30	0.898	46.89	(22.13)
5	4,000	20.67	5.46	26.13	18.16	16.31	9.23	2.30	1.197	47.19	(21.06)
6	5,000	20.67	6.82	27.50	18.16	16.31	9.23	2.30	1.497	47.49	(19.99)
7	6,000	20.67	8.19	28.86	18.16	16.31	9.23	2.30	1.796	47.79	(18.93)
8	7,000	20.67	9.55	30.23	18.16	16.31	9.23	2.30	2.096	48.09	(17.86)
9	8,000	20.67	10.92	31.59	18.16	16.31	9.23	2.30	2.395	48.39	(16.80)
10	9,000	20.67	12.28	32.95	18.16	16.31	9.23	2.30	2.694	48.69	(15.73)
11	10,000	20.67	13.65	34.32	18.16	16.31	9.23	2.30	2.994	48.99	(14.67)
12	12,000	20.67	16.38	37.05	18.16	16.31	9.23	2.30	3.592	49.59	(12.54)
13	14,000	20.67	19.11	39.78	18.16	16.31	9.23	2.30	4.191	50.18	(10.41)
14	16,000	20.67	21.84	42.51	18.16	16.31	9.23	2.30	4.790	50.78	(8.28)
15	18,000	20.67	24.57	45.24	18.16	16.31	9.23	2.30	5.388	51.38	(6.14)
16	20,000	20.67	27.30	47.97	18.16	16.31	9.23	2.30	5.987	51.98	(4.01)
17	25,000	20.67	34.12	54.79	18.16	16.31	9.23	2.30	7.484	53.48	1.31
18	30,000	20.67	43.44	64.12	18.16	16.31	9.23	2.30	8.981	54.97	9.14
19	35,000	20.67	52.77	73.44	18.16	16.31	9.23	2.30	10.478	56.47	16.97
20	40,000	20.67	62.09	82.76	18.16	16.31	9.23	2.30	11.974	57.97	24.79
21	45,000	20.67	71.41	92.09	18.16	16.31	9.23	2.30	13.471	59.46	32.62
22	50,000	20.67	80.74	101.41	18.16	16.31	9.23	2.30	14.968	60.96	40.45
23	60,000	20.67	99.39	120.06	18.16	16.31	9.23	2.30	17.962	63.96	56.10
24	70,000	20.67	118.03	138.71	18.16	16.31	9.23	2.30	20.955	66.95	71.76
25	80,000	20.67	136.68	157.35	18.16	16.31	9.23	2.30	23.949	69.94	87.41
26	90,000	20.67	155.33	176.00	18.16	16.31	9.23	2.30	26.942	72.94	103.07
27	100,000	20.67	173.98	194.65	18.16	16.31	9.23	2.30	29.936	75.93	118.72



Pima Utility Company - Water Division  
 Analysis of Revenue by Detailed Class  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-2  
 Page 1  
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2010	Average Consumption	Average Bill		Proposed Increase		Percent of Customers
		Present Rates		Proposed Rates	Dollar Amount	Percent Amount		
1	5/8x3/4 Inch Residential	9,747	6,395	\$ 10.66	\$ 14.49	\$ 3.83	35.91%	95.87%
2	1 Inch Residential	220	28,258	44.00	60.87	16.87	38.34%	2.17%
3								
4	5/8x3/4 Inch Commercial	63	27,442	\$ 32.82	53.54	20.72	63.14%	0.62%
5	3/4 Inch Commercial	4	31,484	37.18	61.07	23.89	64.26%	0.04%
6	1 Inch Commercial	46	35,570	51.90	74.50	22.61	43.56%	0.45%
7	1 1/2 Inch Commercial	11	55,541	78.46	105.70	27.24	34.72%	0.11%
8	2 Inch Commercial	72	51,537	79.14	103.93	24.79	31.32%	0.71%
9								
10	Irrigation	4	15,854,381	\$ 5,851.58	\$ 11,330.63	\$ 5,479.05	93.63%	0.04%
11								
12								
13								
14								
15								
16								
17								
18	Totals	<u>10,167</u>						<u>100.00%</u>
19								
20	Actual Year End Number							
21	of Customers:	<u>10,188</u>						
22								
23								
24								
25								





Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Present and Proposed Rates

Exhibit  
Schedule H-3  
Page 1

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	<u>Meter Size (All Classes):</u>				
2	5/8x3/4 Inch	\$ 5.70	\$ 7.36	\$ 1.66	29.20%
2	3/4 Inch	5.70	7.36	1.66	29.20%
3	1 Inch	16.00	20.67	4.67	29.20%
4	1 1/2 Inch	21.00	27.13	6.13	29.20%
5	2 Inch	26.00	33.59	7.59	29.20%
6	3 Inch	40.00	51.68	11.68	29.20%
7	4 Inch	52.00	67.18	15.18	29.20%
8	6 Inch	100.00	129.20	29.20	29.20%
9					
10	Irrigation	180.00	232.56	52.56	29.20%
11					
12	Gallons In Minimum (All Classes, except irrigation)	1,000	-		
13					
14	<u>Gallons In Minimum (Irrigation)</u>	100,000	-		
15					
16					
17			(Per 1,000 gallons)		
18	<u>Commodity Rates</u>	<u>Block</u>	<u>Present Rate</u>	<u>Proposed Rate</u>	
19					
20	5/8x3/4 Inch (All Classes)	Over Minimum up to 10,000 gallons	\$ 0.92		
21		Over 10,000 gallons	\$ 1.08		
22					
23	5/8x3/4 Inch - Residential	1 gallons to 4,000 gallons		\$ 0.96	
24		4,001 gallons to 10,000 gallons		\$ 1.36	
25		over 10,000 gallons		\$ 1.86	
26					
27	5/8x3/4 Inch - Commercial	1 gallons to 10,000 gallons		\$ 1.36	
28		over 10,000 gallons		\$ 1.86	
29					
30	3/4 Inch Meter (All Classes)	Over Minimum up to 10,000 gallons	\$ 0.92		
31		Over 10,000 gallons	\$ 1.08		
32					
33	3/4 Inch Meter - Residential	1 gallons to 4,000 gallons		\$ 0.96	
34		4,001 gallons to 10,000 gallons		\$ 1.36	
35		over 10,000 gallons		\$ 1.86	
36					
37	3/4 Inch Meter - Commercial	1 gallons to 10,000 gallons		\$ 0.96	
38		over 10,000 gallons		\$ 1.36	
39					
40					
41	NT = No Tariff				
42					

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Present and Proposed Rates

Exhibit  
Schedule H-3  
Page 2

Line No.			(Per 1,000 gallons)		
			Present Rate	Proposed Rate	
1					
2					
3	<b>Commodity Rates</b>	<b>Block</b>			
4	1 Inch Meter (All classes)	Over Minimum up to 10,000 gallons	\$ 0.92		
5		Over 10,000 gallons	\$ 1.08		
6					
7	1 Inch Meter - Residential, Commercial	1 gallons to 25,000 gallons		\$ 1.36	
8		over 25,000 gallons		\$ 1.86	
9					
10	1.5 Inch Meter (All classes, except irrigation)	Over Minimum up to 10,000 gallons	\$ 0.92		
11		Over 10,000 gallons	\$ 1.08		
12					
13	1.5 Inch Meter - Residential, Commercial	1 gallons to 50,000 gallons		\$ 1.36	
14		over 50,000 gallons		\$ 1.86	
15					
16	2 Inch Meter (All classes, except irrigation)	Over Minimum up to 10,000 gallons	\$ 0.92		
17		Over 10,000 gallons	\$ 1.08		
18					
19	2 Inch Meter - Residential, Commercial	1 gallons to 80,000 gallons		\$ 1.36	
20		over 80,000 gallons		\$ 1.86	
21					
22	3 Inch Meter (All classes, except irrigation)	Over Minimum up to 10,000 gallons	\$ 0.92		
23		Over 10,000 gallons	\$ 1.08		
24					
25	3 Inch Meter - Residential, Commercial	1 gallons to 160,000 gallons		\$ 1.36	
26		over 160,000 gallons		\$ 1.86	
27					
28	4 Inch Meter (All classes, except irrigation)	Over Minimum up to 10,000 gallons	\$ 0.92		
29		Over 10,000 gallons	\$ 1.08		
30					
31	4 Inch Meter - Residential, Commercial	1 gallons to 250,000 gallons		\$ 1.36	
32		over 250,000 gallons		\$ 1.86	
33					
34	6 Inch Meter (All classes, except irrigation)	Over Minimum up to 10,000 gallons	\$ 0.92		
35		Over 10,000 gallons	\$ 1.08		
36					
37	6 Inch Meter - Residential, Commercial	1 gallons to 500,000 gallons		\$ 1.36	
38		over 500,000 gallons		\$ 1.86	
39					
40	Irrigation (all meter sizes)	Over Minimum	\$ 0.36	\$ 0.70	
41					
42	Construction/Standpipe	All gallons	NT	\$ 0.70	
43					
44	NT = No Tariff				

**Pima Utility Company - Water Division**  
Present and Proposed Rates  
Test Year Ended December 31, 2010

Exhibit  
Schedule H-3  
Page 3  
Witness: Bourassa

Line  
No.

<u>Meter and Service Line Charges<sup>1</sup></u>						
	Present Service Line Charge	Present Meter Install- ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install- ation Charge	Total Proposed Charge
7 5/8 x 3/4 Inch			NT	\$ 385.00	\$ 135.00	\$ 520.00
8 3/4 Inch			NT	415.00	205.00	620.00
9 1 Inch			NT	465.00	265.00	730.00
10 1 1/2 Inch			NT	520.00	475.00	995.00
11 2 Inch Turbo			NT	800.00	995.00	1,795.00
12 2 Inch, Compound			NT	800.00	1,840.00	2,640.00
13 3 Inch Turbo			NT	1,015.00	1,620.00	2,635.00
14 3 Inch, compound			NT	1,135.00	2,495.00	3,630.00
15 4 Inch Turbo			NT	1,430.00	2,570.00	4,000.00
16 4 Inch, compound			NT	1,610.00	3,545.00	5,155.00
17 6 Inch Turbo			NT	2,150.00	4,925.00	7,075.00
18 6 Inch, compound			NT	2,270.00	6,820.00	9,090.00

<sup>1</sup> Based on ACC Staff Engineering Memo dated February 21, 2008

NT = No Tariff

Other Charges:

Establishment	NT	\$ 25.00
Reestablishment (within 12 months)	*	*
Reconnection (Delinquent)	NT	\$ 25.00
Meter Test (if correct)	\$ 20.00	\$ 20.00
Meter Re-read (if correct)	\$ 25.00	\$ 25.00
Deposit	**	**
Deposit Interest	**	**
NSF Check	\$ 15.00	\$ 15.00
Deferred Payment, per month	1.5%	1.5%
Late Payment Fee (per month)	1.5%	1.5%
After hours service charge	NT	\$ 50.00

\* Number of months off the system times the monthly minimum.

\*\* Per Rule R14-2-403.B

NT = No Tariff

Pima Utility Company - Water Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Residential 5/8x3/4 Inch Meter  
 Test Year Ended December 31, 2010  
 (Excludes all Revenue Related Taxes)

Exhibit  
 Schedule H-4  
 Page 1  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 5.70	\$ 7.36	\$ 1.66	29.20%
1,000	5.70	8.33	2.63	46.13%
2,000	6.62	9.29	2.67	40.39%
3,000	7.54	10.26	2.72	36.06%
4,000	8.46	11.22	2.76	32.67%
5,000	9.38	12.59	3.21	34.20%
6,000	10.30	13.95	3.65	35.47%
7,000	11.22	15.32	4.10	36.52%
8,000	12.14	16.68	4.54	37.42%
9,000	13.06	18.05	4.99	38.19%
10,000	13.98	19.41	5.43	38.86%
12,000	16.14	23.14	7.00	43.38%
14,000	18.30	26.87	8.57	46.84%
16,000	20.46	30.60	10.14	49.56%
18,000	22.62	34.33	11.71	51.77%
20,000	24.78	38.06	13.28	53.59%
25,000	30.18	47.38	17.20	57.00%
30,000	35.58	56.71	21.13	59.38%
35,000	40.98	66.03	25.05	61.13%
40,000	46.38	75.36	28.98	62.47%
45,000	51.78	84.68	32.90	63.54%
50,000	57.18	94.00	36.82	64.40%
60,000	67.98	112.65	44.67	65.71%
70,000	78.78	131.30	52.52	66.66%
80,000	89.58	149.95	60.37	67.39%
90,000	100.38	168.59	68.21	67.96%
100,000	111.18	187.24	76.06	68.41%
Average Usage 6,395	\$ 10.66	\$ 14.49	\$ 3.83	35.91%
Median Usage 4,500	\$ 8.92	\$ 11.91	\$ 2.99	33.47%

**Present Rates:**  
 Monthly Minimum: \$ 5.70  
 Gallons in Minimum 1,000  
 Charge Per 1,000 Gallons  
 Up to 10,000 \$ 0.92  
 Over 10,000 \$ 1.08

**Proposed Rates:**  
 Monthly Minimum: \$ 7.36  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 Up to 4,000 \$ 0.96  
 Up to 10,000 \$ 1.36  
 Over 10,000 \$ 1.86

Pima Utility Company - Water Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Residential 1 Inch Meter  
 Test Year Ended December 31, 2010  
 (Excludes all Revenue Related Taxes)

Exhibit  
 Schedule H-4  
 Page 2  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 16.00	\$ 20.67	\$ 4.67	29.20%
1,000	16.00	22.04	\$ 6.04	37.73%
2,000	16.92	23.40	\$ 6.48	38.31%
3,000	17.84	24.77	\$ 6.93	38.82%
4,000	18.76	26.13	\$ 7.37	39.29%
5,000	19.68	27.50	\$ 7.82	39.71%
6,000	20.60	28.86	\$ 8.26	40.10%
7,000	21.52	30.23	\$ 8.71	40.45%
8,000	22.44	31.59	\$ 9.15	40.78%
9,000	23.36	32.95	\$ 9.59	41.07%
10,000	24.28	34.32	\$ 10.04	41.35%
12,000	26.44	37.05	\$ 10.61	40.13%
14,000	28.60	39.78	\$ 11.18	39.09%
16,000	30.76	42.51	\$ 11.75	38.19%
18,000	32.92	45.24	\$ 12.32	37.42%
20,000	35.08	47.97	\$ 12.89	36.74%
25,000	40.48	54.79	\$ 14.31	35.35%
30,000	45.88	64.12	\$ 18.24	39.75%
35,000	51.28	73.44	\$ 22.16	43.21%
40,000	56.68	82.76	\$ 26.08	46.02%
45,000	62.08	92.09	\$ 30.01	48.34%
50,000	67.48	101.41	\$ 33.93	50.28%
60,000	78.28	120.06	\$ 41.78	53.37%
70,000	89.08	138.71	\$ 49.63	55.71%
80,000	99.88	157.35	\$ 57.47	57.54%
90,000	110.68	176.00	\$ 65.32	59.02%
100,000	121.48	194.65	\$ 73.17	60.23%

Average Usage				
28,258	\$ 44.00	\$ 60.87	\$ 16.87	38.34%
Median Usage				
22,500	\$ 37.78	\$ 51.38	\$ 13.60	36.00%

**Present Rates:**  
 Monthly Minimum: \$ 16.00  
 Gallons in Minimum 1,000  
 Charge Per 1,000 Gallons  
 Up to 10,000 \$ 0.92  
 Over 10,000 \$ 1.08

**Proposed Rates:**  
 Monthly Minimum: \$ 20.67  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 Up to 25,000 \$ 1.36  
 Over 25,000 \$ 1.86

Pima Utility Company - Water Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commercial 5/8x3/4 Inch Meter  
 Test Year Ended December 31, 2010  
 (Excludes all Revenue Related Taxes)

Exhibit  
 Schedule H-4  
 Page 1  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 5.70	\$ 7.36	\$ 1.66	29.20%
1,000	5.70	8.73	3.03	53.14%
2,000	6.62	10.09	3.47	52.48%
3,000	7.54	11.46	3.92	51.97%
4,000	8.46	12.82	4.36	51.58%
5,000	9.38	14.19	4.81	51.26%
6,000	10.30	15.55	5.25	51.00%
7,000	11.22	16.92	5.70	50.78%
8,000	12.14	18.28	6.14	50.60%
9,000	13.06	19.65	6.59	50.44%
10,000	13.98	21.01	7.03	50.30%
12,000	16.14	24.74	8.60	53.29%
14,000	18.30	28.47	10.17	55.58%
16,000	20.46	32.20	11.74	57.38%
18,000	22.62	35.93	13.31	58.84%
20,000	24.78	39.66	14.88	60.05%
25,000	30.18	48.98	18.80	62.31%
30,000	35.58	58.31	22.73	63.88%
35,000	40.98	67.63	26.65	65.04%
40,000	46.38	76.96	30.58	65.92%
45,000	51.78	86.28	34.50	66.63%
50,000	57.18	95.60	38.42	67.20%
60,000	67.98	114.25	46.27	68.07%
70,000	78.78	132.90	54.12	68.70%
80,000	89.58	151.55	61.97	69.17%
90,000	100.38	170.19	69.81	69.55%
100,000	111.18	188.84	77.66	69.85%
Average Usage				
27,442	\$ 32.82	\$ 53.54	\$ 20.72	63.14%
Median Usage				
6,500	\$ 10.76	\$ 16.24	\$ 5.48	50.89%

**Present Rates:**  
 Monthly Minimum: \$ 5.70  
 Gallons in Minimum 1,000  
 Charge Per 1,000 Gallons  
 Up to 10,000 \$ 0.92  
 Over 10,000 \$ 1.08

**Proposed Rates:**  
 Monthly Minimum: \$ 7.36  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 Up to 10,000 \$ 1.36  
 Over 10,000 \$ 1.86

Pima Utility Company - Water Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commercial 3/4 Inch Meter  
 Test Year Ended December 31, 2010  
 (Excludes all Revenue Related Taxes)

Exhibit  
 Schedule H-4  
 Page 4  
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 5.70	\$ 7.36	\$ 1.66	29.20%
1,000	5.70	8.73	\$ 3.03	53.14%
2,000	6.62	10.09	\$ 3.47	52.48%
3,000	7.54	11.46	\$ 3.92	51.97%
4,000	8.46	12.82	\$ 4.36	51.58%
5,000	9.38	14.19	\$ 4.81	51.26%
6,000	10.30	15.55	\$ 5.25	51.00%
7,000	11.22	16.92	\$ 5.70	50.78%
8,000	12.14	18.28	\$ 6.14	50.60%
9,000	13.06	19.65	\$ 6.59	50.44%
10,000	13.98	21.01	\$ 7.03	50.30%
12,000	16.14	24.74	\$ 8.60	53.29%
14,000	18.30	28.47	\$ 10.17	55.58%
16,000	20.46	32.20	\$ 11.74	57.38%
18,000	22.62	35.93	\$ 13.31	58.84%
20,000	24.78	39.66	\$ 14.88	60.05%
25,000	30.18	48.98	\$ 18.80	62.31%
30,000	35.58	58.31	\$ 22.73	63.88%
35,000	40.98	67.63	\$ 26.65	65.04%
40,000	46.38	76.96	\$ 30.58	65.92%
45,000	51.78	86.28	\$ 34.50	66.63%
50,000	57.18	95.60	\$ 38.42	67.20%
60,000	67.98	114.25	\$ 46.27	68.07%
70,000	78.78	132.90	\$ 54.12	68.70%
80,000	89.58	151.55	\$ 61.97	69.17%
90,000	100.38	170.19	\$ 69.81	69.55%
100,000	111.18	188.84	\$ 77.66	69.85%
Average Usage				
31,484	\$ 37.18	\$ 61.07	\$ 23.89	64.26%
Median Usage				
4,500	\$ 8.92	\$ 13.51	\$ 4.59	51.41%

**Present Rates:**  
 Monthly Minimum: \$ 5.70  
 Gallons in Minimum 1,000  
 Charge Per 1,000 Gallons  
 Up to 10,000 \$ 0.92  
 Over 10,000 \$ 1.08

**Proposed Rates:**  
 Monthly Minimum: \$ 7.36  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 Up to 10,000 \$ 1.36  
 Over 10,000 \$ 1.86



Pima Utility Company - Water Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commercial 1 Inch Meter  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-4  
 Page 5  
 Witness: Bourassa

<u>Usage</u>	<u>Present</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>
	<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
-	\$ 16.00	\$ 20.67	\$ 4.67	29.20%
1,000	16.00	22.04	\$ 6.04	37.73%
2,000	16.92	23.40	\$ 6.48	38.31%
3,000	17.84	24.77	\$ 6.93	38.82%
4,000	18.76	26.13	\$ 7.37	39.29%
5,000	19.68	27.50	\$ 7.82	39.71%
6,000	20.60	28.86	\$ 8.26	40.10%
7,000	21.52	30.23	\$ 8.71	40.45%
8,000	22.44	31.59	\$ 9.15	40.78%
9,000	23.36	32.95	\$ 9.59	41.07%
10,000	24.28	34.32	\$ 10.04	41.35%
12,000	26.44	37.05	\$ 10.61	40.13%
14,000	28.60	39.78	\$ 11.18	39.09%
16,000	30.76	42.51	\$ 11.75	38.19%
18,000	32.92	45.24	\$ 12.32	37.42%
20,000	35.08	47.97	\$ 12.89	36.74%
25,000	40.48	54.79	\$ 14.31	35.35%
30,000	45.88	64.12	\$ 18.24	39.75%
35,000	51.28	73.44	\$ 22.16	43.21%
40,000	56.68	82.76	\$ 26.08	46.02%
45,000	62.08	92.09	\$ 30.01	48.34%
50,000	67.48	101.41	\$ 33.93	50.28%
60,000	78.28	120.06	\$ 41.78	53.37%
70,000	89.08	138.71	\$ 49.63	55.71%
80,000	99.88	157.35	\$ 57.47	57.54%
90,000	110.68	176.00	\$ 65.32	59.02%
100,000	121.48	194.65	\$ 73.17	60.23%
Average Usage				
35,570 \$	51.90	\$ 74.50	\$ 22.61	43.56%
Median Usage				
11,000 \$	25.36	\$ 35.68	\$ 10.32	40.71%

**Present Rates:**  
 Monthly Minimum: \$ 16.00  
 Gallons in Minimum 1,000  
 Charge Per 1,000 Gallons  
 Up to 10,000 \$ 0.92  
 Over 10,000 \$ 1.08

**Proposed Rates:**  
 Monthly Minimum: \$ 20.67  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 Up to 25,000 \$ 1.36  
 Over 25,000 \$ 1.86

Pima Utility Company - Water Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commercial 1 1/2 Inch Meter  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-4  
 Page 6  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 21.00	\$ 27.13	\$ 6.13	29.20%
1,000	21.00	28.50	\$ 7.50	35.70%
2,000	21.92	29.86	\$ 7.94	36.23%
3,000	22.84	31.23	\$ 8.39	36.72%
4,000	23.76	32.59	\$ 8.83	37.17%
5,000	24.68	33.96	\$ 9.28	37.58%
6,000	25.60	35.32	\$ 9.72	37.97%
7,000	26.52	36.69	\$ 10.17	38.33%
8,000	27.44	38.05	\$ 10.61	38.67%
9,000	28.36	39.41	\$ 11.05	38.98%
10,000	29.28	40.78	\$ 11.50	39.28%
12,000	31.44	43.51	\$ 12.07	38.39%
14,000	33.60	46.24	\$ 12.64	37.62%
16,000	35.76	48.97	\$ 13.21	36.94%
18,000	37.92	51.70	\$ 13.78	36.33%
20,000	40.08	54.43	\$ 14.35	35.80%
25,000	45.48	61.25	\$ 15.77	34.68%
30,000	50.88	68.08	\$ 17.20	33.80%
35,000	56.28	74.90	\$ 18.62	33.08%
40,000	61.68	81.72	\$ 20.04	32.50%
45,000	67.08	88.55	\$ 21.47	32.00%
50,000	72.48	95.37	\$ 22.89	31.58%
60,000	83.28	114.02	\$ 30.74	36.91%
70,000	94.08	132.67	\$ 38.59	41.01%
80,000	104.88	151.31	\$ 46.43	44.27%
90,000	115.68	169.96	\$ 54.28	46.92%
100,000	126.48	188.61	\$ 62.13	49.12%
Average Usage				
55,541	\$ 78.46	\$ 105.70	\$ 27.24	34.72%
Median Usage				
32,500	\$ 53.58	\$ 71.49	\$ 17.91	33.42%

**Present Rates:**  
 Monthly Minimum: \$ 21.00  
 Gallons in Minimum 1,000  
 Charge Per 1,000 Gallons  
 Up to 10,000 \$ 0.92  
 Over 10,000 \$ 1.08

**Proposed Rates:**  
 Monthly Minimum: \$ 27.13  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 Up to 50,000 \$ 1.36  
 Over 50,000 \$ 1.86

Pima Utility Company - Water Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commerical 2 Inch Meter  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-4  
 Page 7  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 26.00	\$ 33.59	\$ 7.59	29.20%
1,000	26.00	34.96	\$ 8.96	34.45%
2,000	26.92	36.32	\$ 9.40	34.92%
3,000	27.84	37.69	\$ 9.85	35.37%
4,000	28.76	39.05	\$ 10.29	35.78%
5,000	29.68	40.42	\$ 10.74	36.17%
6,000	30.60	41.78	\$ 11.18	36.54%
7,000	31.52	43.15	\$ 11.63	36.88%
8,000	32.44	44.51	\$ 12.07	37.21%
9,000	33.36	45.87	\$ 12.51	37.51%
10,000	34.28	47.24	\$ 12.96	37.81%
12,000	36.44	49.97	\$ 13.53	37.13%
14,000	38.60	52.70	\$ 14.10	36.53%
16,000	40.76	55.43	\$ 14.67	35.99%
18,000	42.92	58.16	\$ 15.24	35.50%
20,000	45.08	60.89	\$ 15.81	35.07%
25,000	50.48	67.71	\$ 17.23	34.13%
30,000	55.88	74.54	\$ 18.66	33.38%
35,000	61.28	81.36	\$ 20.08	32.77%
40,000	66.68	88.18	\$ 21.50	32.25%
45,000	72.08	95.01	\$ 22.93	31.81%
50,000	77.48	101.83	\$ 24.35	31.43%
60,000	88.28	115.48	\$ 27.20	30.81%
70,000	99.08	129.13	\$ 30.05	30.33%
80,000	109.88	142.77	\$ 32.89	29.94%
90,000	120.68	161.42	\$ 40.74	33.76%
100,000	131.48	180.07	\$ 48.59	36.96%
Average Usage				
51,537 \$	79.14	\$ 103.93	\$ 24.79	31.32%
Median Usage				
65,000 \$	93.68	\$ 122.30	\$ 28.62	30.55%

**Present Rates:**  
 Monthly Minimum: \$ 26.00  
 Gallons in Minimum 1,000  
 Charge Per 1,000 Gallons  
 Up to 10,000 \$ 0.92  
 Over 10,000 \$ 1.08

**Proposed Rates:**  
 Monthly Minimum: \$ 33.59  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 Up to 80,000 \$ 1.36  
 Over 80,000 \$ 1.86

Pima Utility Company - Water Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Irrigation  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-4  
 Page 8  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 180.00	\$ 232.56	\$ 52.56	29.20%
10,000	180.00	239.56	\$ 59.56	33.09%
20,000	180.00	246.56	\$ 66.56	36.98%
30,000	180.00	253.56	\$ 73.56	40.87%
40,000	180.00	260.56	\$ 80.56	44.76%
50,000	180.00	267.56	\$ 87.56	48.64%
100,000	180.00	302.56	\$ 122.56	68.09%
150,000	198.00	337.56	\$ 139.56	70.48%
200,000	216.00	372.56	\$ 156.56	72.48%
250,000	234.00	407.56	\$ 173.56	74.17%
300,000	252.00	442.56	\$ 190.56	75.62%
350,000	270.00	477.56	\$ 207.56	76.87%
400,000	288.00	512.56	\$ 224.56	77.97%
450,000	306.00	547.56	\$ 241.56	78.94%
500,000	324.00	582.56	\$ 258.56	79.80%
1,000,000	504.00	932.56	\$ 428.56	85.03%
1,500,000	684.00	1,282.56	\$ 598.56	87.51%
2,000,000	864.00	1,632.56	\$ 768.56	88.95%
2,500,000	1,044.00	1,982.56	\$ 938.56	89.90%
3,000,000	1,224.00	2,332.56	\$ 1,108.56	90.57%
3,500,000	1,404.00	2,682.56	\$ 1,278.56	91.07%
4,000,000	1,584.00	3,032.56	\$ 1,448.56	91.45%
4,500,000	1,764.00	3,382.56	\$ 1,618.56	91.76%
5,000,000	1,944.00	3,732.56	\$ 1,788.56	92.00%
10,000,000	3,744.00	7,232.56	\$ 3,488.56	93.18%
15,000,000	5,544.00	10,732.56	\$ 5,188.56	93.59%
20,000,000	7,344.00	14,232.56	\$ 6,888.56	93.80%
Average Usage				
15,854,381	\$ 5,851.58	#####	\$ 5,479.05	93.63%
Median Usage				
8,864,900	\$ 3,335.36	\$ 6,437.99	\$ 3,102.63	93.02%

**Present Rates:**  
 Monthly Minimum: \$ 180.00  
 Gallons in Minimum 100,000  
 Charge Per 1,000 Gallons  
 All Gallons \$ 0.36

**Proposed Rates:**  
 Monthly Minimum: \$ 232.56  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 All Gallons \$ 0.70

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
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Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
-	-	233	234	234	267	305	361	423	425	392	381	335	358	3,948	3,948	-
1	1,000	427	398	431	465	721	784	794	878	749	706	517	607	7,477	11,425	3,742
1,001	2,000	771	821	804	738	857	800	846	786	764	856	649	897	9,589	21,014	18,131
2,001	3,000	1,153	1,193	1,055	963	984	865	869	910	888	971	907	1,099	11,857	32,871	47,779
3,001	4,000	1,423	1,421	1,392	1,113	1,008	872	887	929	834	1,063	1,005	1,299	13,246	46,117	94,147
4,001	5,000	1,375	1,403	1,331	1,117	946	872	838	801	862	980	1,069	1,191	12,785	58,902	151,685
5,001	6,000	1,132	1,153	1,192	1,018	892	790	745	764	759	890	963	985	11,283	70,185	213,748
6,001	7,000	864	853	911	905	730	668	673	688	684	749	848	799	9,372	79,557	274,670
7,001	8,000	633	646	650	695	654	596	556	542	618	602	715	631	7,538	87,095	331,209
8,001	9,000	433	423	488	542	439	479	452	478	494	469	546	437	5,680	92,775	379,492
9,001	10,000	350	326	308	431	426	413	428	404	414	389	440	331	4,660	97,435	423,764
10,001	12,000	380	341	419	572	613	628	551	593	619	562	583	432	6,293	103,728	492,990
12,001	14,000	177	191	186	338	368	435	441	401	478	364	367	234	3,980	107,708	544,732
14,001	16,000	134	116	133	202	238	316	305	280	325	217	240	145	2,651	110,359	584,499
16,001	18,000	68	70	78	121	144	212	228	224	224	143	144	85	1,741	112,100	614,097
18,001	20,000	52	43	38	82	117	158	160	135	158	93	115	68	1,219	113,319	637,258
20,001	25,000	76	49	61	105	169	232	244	227	231	156	148	82	1,780	115,099	677,309
25,001	30,000	22	26	26	41	72	118	136	107	99	72	67	34	820	115,919	699,859
30,001	35,000	10	14	13	18	23	66	53	64	58	23	31	8	381	116,300	712,242
35,001	40,000	8	5	4	12	13	29	32	28	30	25	13	6	205	116,505	719,930
40,001	45,000	10	7	-	4	10	11	26	18	16	8	10	4	124	116,629	725,200
45,001	50,000	1	2	1	1	10	10	16	22	13	8	8	3	95	116,724	729,712
50,001	60,000	6	3	1	7	4	14	14	18	15	7	10	4	103	116,827	735,377
60,001	70,000	4	3	-	2	3	7	11	5	9	3	-	-	47	116,874	738,432
70,001	80,000	1	1	-	3	3	3	3	6	4	1	1	2	28	116,902	740,532
80,001	90,000	1	1	3	1	1	-	1	5	2	2	1	1	19	116,921	742,147
90,001	100,000	2	2	-	1	-	1	-	2	2	-	1	-	11	116,932	743,192
213,190	213,190	1	-	-	-	-	-	-	-	-	-	-	-	1	116,933	743,406
258,550	258,550	1	-	-	-	-	-	-	-	-	-	-	-	1	116,934	743,664
104,500	104,500	-	-	1	-	-	-	-	-	-	-	-	-	1	116,935	743,769
111,780	111,780	-	-	1	-	-	-	-	-	-	-	-	-	1	116,936	743,881
241,420	241,420	-	-	1	-	-	-	-	-	-	-	-	-	1	116,937	744,122
355,740	355,740	-	-	-	1	-	-	-	-	-	-	-	-	1	116,938	744,478
111,750	111,750	-	-	-	-	1	-	-	-	-	-	-	-	1	116,939	744,589
121,200	121,200	-	-	-	-	1	-	-	-	-	-	-	-	1	116,940	744,711
123,790	123,790	-	-	-	-	-	1	-	-	-	-	-	-	1	116,941	744,834
166,810	166,810	-	-	-	-	-	1	-	-	-	-	-	-	1	116,942	745,001
121,750	121,750	-	-	-	-	-	-	1	-	-	-	-	-	1	116,943	745,123
140,810	140,810	-	-	-	-	-	-	1	-	-	-	-	-	1	116,944	745,264
153,210	153,210	-	-	-	-	-	-	1	-	-	-	-	-	1	116,945	745,417
163,180	163,180	-	-	-	-	-	-	1	-	-	-	-	-	1	116,946	745,580
100,790	100,790	-	-	-	-	-	-	-	1	-	-	-	-	1	116,947	745,681
105,250	105,250	-	-	-	-	-	-	-	1	-	-	-	-	1	116,948	745,786
111,540	111,540	-	-	-	-	-	-	-	1	-	-	-	-	1	116,949	745,898
147,600	147,600	-	-	-	-	-	-	-	1	-	-	-	-	1	116,950	746,045
185,710	185,710	-	-	-	-	-	-	-	1	-	-	-	-	1	116,951	746,231
100,250	100,250	-	-	-	-	-	-	-	-	1	-	-	-	1	116,952	746,331
106,130	106,130	-	-	-	-	-	-	-	-	1	-	-	-	1	116,953	746,437
108,570	108,570	-	-	-	-	-	-	-	-	1	-	-	-	1	116,954	746,546
140,460	140,460	-	-	-	-	-	-	-	-	1	-	-	-	1	116,955	746,686
155,890	155,890	-	-	-	-	-	-	-	-	1	-	-	-	1	116,956	746,842

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Customer Classification Residential 5/8x3/4 Inch Meter

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Usage	Usage	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Total	Cumul-	Cumul-
From:	To:	of	of	of	of	of	of	of	of	of	of	of	of	Year	ative	ative
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		Billing	Gals (1,000s)
221,260	221,260	-	-	-	-	-	-	-	-	1	-	-	-	1	116,957	747,064
100,480	100,480	-	-	-	-	-	-	-	-	-	1	-	-	1	116,958	747,164
103,850	103,850	-	-	-	-	-	-	-	-	-	1	-	-	1	116,959	747,268
213,940	213,940	-	-	-	-	-	-	-	-	-	1	-	-	1	116,960	747,482
388,960	388,960	-	-	-	-	-	-	-	-	-	1	-	-	1	116,961	747,871
102,210	102,210	-	-	-	-	-	-	-	-	-	-	-	1	1	116,962	747,973
104,090	104,090	-	-	-	-	-	-	-	-	-	-	-	-	-	116,962	747,973
		-	-	-	-	-	-	-	-	-	-	-	-	-	116,962	747,973
Totals		9,748	9,745	9,762	9,765	9,752	9,742	9,736	9,745	9,747	9,744	9,733	9,743	116,962		
															Average Usage	6,395
															Median Usage	4,500
															Average # Customers	9,747
															Change in Number of Customers	(5)

Pima Utility Company - Water Division  
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Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
-	-	4	3	5	3	4	3	2	3	5	6	6	3	47	47	-
1	1,000	3	5	5	4	5	4	-	1	3	4	2	2	38	85	19
1,001	2,000	2	3	2	3	2	2	2	1	1	2	1	1	22	107	52
2,001	3,000	3	2	-	1	1	1	2	2	3	1	1	2	19	126	100
3,001	4,000	2	10	4	-	2	-	2	2	2	3	1	1	29	155	201
4,001	5,000	7	10	9	1	5	2	3	2	1	2	1	4	47	202	413
5,001	6,000	10	15	5	5	1	2	4	3	2	5	2	6	60	262	743
6,001	7,000	8	14	8	5	4	1	4	2	3	4	2	8	63	325	1,152
7,001	8,000	11	12	7	6	5	3	3	2	3	2	6	8	68	393	1,662
8,001	9,000	8	9	9	5	3	4	4	5	9	6	4	7	73	466	2,283
9,001	10,000	11	9	11	9	5	3	6	5	3	5	6	7	80	546	3,043
10,001	12,000	21	19	17	14	12	4	5	8	4	11	9	15	139	685	4,572
12,001	14,000	19	21	16	13	9	11	7	7	6	13	8	16	146	831	6,470
14,001	16,000	20	13	20	10	9	7	16	12	7	8	12	13	147	978	8,675
16,001	18,000	14	12	16	8	7	9	8	8	9	14	13	11	129	1,107	10,868
18,001	20,000	16	7	13	13	10	7	9	6	9	10	5	9	114	1,221	13,034
20,001	25,000	19	22	21	26	19	16	6	14	17	18	27	30	235	1,456	18,322
25,001	30,000	16	13	24	29	23	10	18	19	20	16	19	24	231	1,687	24,674
30,001	35,000	8	6	7	17	19	21	18	7	17	13	16	18	167	1,854	30,102
35,001	40,000	5	5	7	18	14	4	15	24	19	24	17	18	170	2,024	36,477
40,001	45,000	5	4	10	9	18	15	11	14	12	10	16	5	129	2,153	41,960
45,001	50,000	4	2	2	4	11	12	14	13	13	13	7	4	99	2,252	46,662
50,001	60,000	2	2	2	7	16	25	28	17	21	17	19	3	159	2,411	55,407
60,001	70,000	1	-	-	6	5	20	15	18	13	8	7	3	96	2,507	61,647
70,001	80,000	1	-	-	2	-	12	3	10	7	3	4	1	43	2,550	64,872
80,001	90,000	-	-	-	1	3	7	4	1	5	-	3	-	24	2,574	66,912
90,001	100,000	-	-	-	-	5	1	7	5	2	2	1	1	24	2,598	69,192
103,130	103,130	-	-	-	-	1	-	-	-	-	-	-	-	1	2,599	69,295
104,500	104,500	-	-	-	-	1	-	-	-	-	-	-	-	1	2,600	69,400
106,080	106,080	-	-	-	-	1	-	-	-	-	-	-	-	1	2,601	69,506
114,550	114,550	-	-	-	-	1	-	-	-	-	-	-	-	1	2,602	69,621
100,920	100,920	-	-	-	-	-	1	-	-	-	-	-	-	1	2,603	69,721
105,430	105,430	-	-	-	-	-	1	-	-	-	-	-	-	1	2,604	69,827
108,990	108,990	-	-	-	-	-	1	-	-	-	-	-	-	1	2,605	69,936
112,700	112,700	-	-	-	-	-	1	-	-	-	-	-	-	1	2,606	70,049
114,210	114,210	-	-	-	-	-	1	-	-	-	-	-	-	1	2,607	70,163
115,630	115,630	-	-	-	-	-	1	-	-	-	-	-	-	1	2,608	70,278
116,470	116,470	-	-	-	-	-	1	-	-	-	-	-	-	1	2,609	70,395
123,910	123,910	-	-	-	-	-	1	-	-	-	-	-	-	1	2,610	70,519
125,250	125,250	-	-	-	-	-	1	-	-	-	-	-	-	1	2,611	70,644
129,110	129,110	-	-	-	-	-	1	-	-	-	-	-	-	1	2,612	70,773
129,150	129,150	-	-	-	-	-	1	-	-	-	-	-	-	1	2,613	70,902
135,060	135,060	-	-	-	-	-	1	-	-	-	-	-	-	1	2,614	71,037
136,240	136,240	-	-	-	-	-	1	-	-	-	-	-	-	1	2,615	71,174
146,360	146,360	-	-	-	-	-	1	-	-	-	-	-	-	1	2,616	71,320
147,410	147,410	-	-	-	-	-	1	-	-	-	-	-	-	1	2,617	71,467
105,230	105,230	-	-	-	-	-	-	1	-	-	-	-	-	1	2,618	71,573
109,450	109,450	-	-	-	-	-	-	1	-	-	-	-	-	1	2,619	71,682

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Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
110,720	110,720	-	-	-	-	-	-	1	-	-	-	-	-	1	2,620	71,793
127,300	127,300	-	-	-	-	-	-	1	-	-	-	-	-	1	2,621	71,920
134,180	134,180	-	-	-	-	-	-	1	-	-	-	-	-	1	2,622	72,054
150,160	150,160	-	-	-	-	-	-	1	-	-	-	-	-	1	2,623	72,204
103,140	103,140	-	-	-	-	-	-	-	1	-	-	-	-	1	2,624	72,308
103,420	103,420	-	-	-	-	-	-	-	1	-	-	-	-	1	2,625	72,411
113,730	113,730	-	-	-	-	-	-	-	1	-	-	-	-	1	2,626	72,525
117,320	117,320	-	-	-	-	-	-	-	1	-	-	-	-	1	2,627	72,642
118,240	118,240	-	-	-	-	-	-	-	1	-	-	-	-	1	2,628	72,760
121,140	121,140	-	-	-	-	-	-	-	1	-	-	-	-	1	2,629	72,881
128,270	128,270	-	-	-	-	-	-	-	1	-	-	-	-	1	2,630	73,010
108,440	108,440	-	-	-	-	-	-	-	-	1	-	-	-	1	2,631	73,118
113,950	113,950	-	-	-	-	-	-	-	-	1	-	-	-	1	2,632	73,232
115,640	115,640	-	-	-	-	-	-	-	-	1	-	-	-	1	2,633	73,348
118,110	118,110	-	-	-	-	-	-	-	-	1	-	-	-	1	2,634	73,466
136,410	136,410	-	-	-	-	-	-	-	-	1	-	-	-	1	2,635	73,602
145,430	145,430	-	-	-	-	-	-	-	-	1	-	-	-	1	2,636	73,748
111,270	111,270	-	-	-	-	-	-	-	-	-	1	-	-	1	2,637	73,859
132,090	132,090	-	-	-	-	-	-	-	-	-	1	-	-	1	2,638	73,991
160,930	160,930	-	-	-	-	-	-	-	-	-	1	-	-	1	2,639	74,152
103,280	103,280	-	-	-	-	-	-	-	-	-	-	1	-	1	2,640	74,255
104,630	104,630	-	-	-	-	-	-	-	-	-	-	1	-	1	2,641	74,360
111,880	111,880	-	-	-	-	-	-	-	-	-	-	1	-	1	2,642	74,472
119,610	119,610	-	-	-	-	-	-	-	-	-	-	1	-	1	2,643	74,591
123,980	123,980	-	-	-	-	-	-	-	-	-	-	-	1	1	2,644	74,715
Totals		220	218	220	219	221	221	222	218	222	223	219	221	2,644		
														Average Usage	28,258	
														Median Usage	22,500	
														Average # Customers	220	
														Change in Number of Customers	1	



Pima Utility Company - Water Division  
 Test Year Ended December 31, 2010  
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Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
-	-	9	15	12	7	15	7	8	8	6	13	6	9	115	115	-
1	1,000	9	7	7	6	4	9	3	9	4	5	7	8	78	193	39
1,001	2,000	1	1	3	6	4	7	3	6	5	5	4	6	51	244	116
2,001	3,000	3	2	1	-	4	2	7	4	5	5	4	3	40	284	216
3,001	4,000	3	3	3	2	2	3	2	-	1	-	-	1	20	304	286
4,001	5,000	3	4	2	4	1	2	2	-	1	-	2	-	21	325	380
5,001	6,000	3	2	3	3	1	2	2	2	1	6	1	4	30	355	545
6,001	7,000	1	1	2	1	2	3	3	1	3	-	3	3	23	378	695
7,001	8,000	3	3	1	4	4	1	1	3	2	2	3	2	29	407	912
8,001	9,000	2	2	3	1	-	1	2	4	2	2	3	3	25	432	1,125
9,001	10,000	1	1	2	2	1	1	1	1	2	1	-	2	15	447	1,267
10,001	12,000	2	2	4	-	2	2	1	-	3	2	4	-	22	469	1,509
12,001	14,000	3	-	2	5	2	2	4	2	3	4	1	1	29	498	1,886
14,001	16,000	2	2	-	3	2	-	1	-	1	-	1	3	15	513	2,111
16,001	18,000	4	3	1	-	1	2	-	2	-	-	1	1	15	528	2,366
18,001	20,000	2	1	2	2	2	1	1	-	2	1	1	1	16	544	2,670
20,001	25,000	-	1	2	-	-	4	2	2	2	1	4	1	19	563	3,098
25,001	30,000	2	3	2	3	3	-	3	-	-	-	-	3	19	582	3,620
30,001	35,000	2	1	1	2	-	3	1	2	1	-	-	1	14	596	4,075
35,001	40,000	1	2	2	-	-	-	2	1	4	-	2	-	14	610	4,600
40,001	45,000	-	1	-	2	-	1	2	-	1	3	2	1	13	623	5,153
45,001	50,000	1	1	3	1	1	-	2	2	-	1	-	-	12	635	5,723
50,001	60,000	2	-	1	2	2	3	1	3	4	3	3	4	28	663	7,263
60,001	70,000	1	2	-	-	3	2	1	2	2	-	2	1	16	679	8,303
70,001	80,000	1	1	1	2	1	1	-	2	-	1	1	-	11	690	9,128
80,001	90,000	-	-	1	2	-	1	-	-	2	1	2	-	9	699	9,893
90,001	100,000	-	-	-	-	1	1	1	-	1	-	-	-	4	703	10,273
117,850	117,850	1	-	-	-	-	-	-	-	-	-	-	-	1	704	10,391
181,270	181,270	1	-	-	-	-	-	-	-	-	-	-	-	1	705	10,572
126,320	126,320	-	1	-	-	-	-	-	-	-	-	-	-	1	706	10,698
229,920	229,920	-	1	-	-	-	-	-	-	-	-	-	-	1	707	10,928
118,030	118,030	-	-	1	-	-	-	-	-	-	-	-	-	1	708	11,046
389,050	389,050	-	-	1	-	-	-	-	-	-	-	-	-	1	709	11,435
119,530	119,530	-	-	-	1	-	-	-	-	-	-	-	-	1	710	11,555
280,200	280,200	-	-	-	1	-	-	-	-	-	-	-	-	1	711	11,835
389,870	389,870	-	-	-	1	-	-	-	-	-	-	-	-	1	712	12,225
103,810	103,810	-	-	-	-	1	-	-	-	-	-	-	-	1	713	12,329
113,200	113,200	-	-	-	-	1	-	-	-	-	-	-	-	1	714	12,442
114,540	114,540	-	-	-	-	1	-	-	-	-	-	-	-	1	715	12,556
149,200	149,200	-	-	-	-	1	-	-	-	-	-	-	-	1	716	12,706
425,820	425,820	-	-	-	-	1	-	-	-	-	-	-	-	1	717	13,131
111,160	111,160	-	-	-	-	-	1	-	-	-	-	-	-	1	718	13,243
114,060	114,060	-	-	-	-	-	1	-	-	-	-	-	-	1	719	13,357
121,230	121,230	-	-	-	-	-	1	-	-	-	-	-	-	1	720	13,478
122,230	122,230	-	-	-	-	-	1	-	-	-	-	-	-	1	721	13,600
134,440	134,440	-	-	-	-	-	1	-	-	-	-	-	-	1	722	13,735
301,340	301,340	-	-	-	-	-	1	-	-	-	-	-	-	1	723	14,036
107,240	107,240	-	-	-	-	-	-	1	-	-	-	-	-	1	724	14,143
111,020	111,020	-	-	-	-	-	-	1	-	-	-	-	-	1	725	14,254
112,130	112,130	-	-	-	-	-	-	1	-	-	-	-	-	1	726	14,366
135,570	135,570	-	-	-	-	-	-	1	-	-	-	-	-	1	727	14,502

Exhibit  
Schedule H-5  
Page 3  
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
144,100	144,100	-	-	-	-	-	-	1	-	-	-	-	-	1	728	14,646
359,330	359,330	-	-	-	-	-	-	1	-	-	-	-	-	1	729	15,005
370,080	370,080	-	-	-	-	-	-	1	-	-	-	-	-	1	730	15,375
108,300	108,300	-	-	-	-	-	-	-	1	-	-	-	-	1	731	15,484
110,760	110,760	-	-	-	-	-	-	-	1	-	-	-	-	1	732	15,594
118,790	118,790	-	-	-	-	-	-	-	1	-	-	-	-	1	733	15,713
126,520	126,520	-	-	-	-	-	-	-	1	-	-	-	-	1	734	15,840
334,930	334,930	-	-	-	-	-	-	-	1	-	-	-	-	1	735	16,175
379,140	379,140	-	-	-	-	-	-	-	1	-	-	-	-	1	736	16,554
113,340	113,340	-	-	-	-	-	-	-	-	1	-	-	-	1	737	16,667
125,610	125,610	-	-	-	-	-	-	-	-	1	-	-	-	1	738	16,793
377,520	377,520	-	-	-	-	-	-	-	-	1	-	-	-	1	739	17,170
428,610	428,610	-	-	-	-	-	-	-	-	-	1	-	-	1	740	17,599
108,330	108,330	-	-	-	-	-	-	-	-	-	1	-	-	1	741	17,707
121,940	121,940	-	-	-	-	-	-	-	-	-	1	-	-	1	742	17,829
131,480	131,480	-	-	-	-	-	-	-	-	-	1	-	-	1	743	17,961
176,810	176,810	-	-	-	-	-	-	-	-	-	1	-	-	1	744	18,137
312,670	312,670	-	-	-	-	-	-	-	-	-	1	-	-	1	745	18,450
339,670	339,670	-	-	-	-	-	-	-	-	-	1	-	-	1	746	18,790
102,600	102,600	-	-	-	-	-	-	-	-	-	-	1	-	1	747	18,892
115,570	115,570	-	-	-	-	-	-	-	-	-	-	1	-	1	748	19,008
220,760	220,760	-	-	-	-	-	-	-	-	-	-	1	-	1	749	19,229
308,510	308,510	-	-	-	-	-	-	-	-	-	-	1	-	1	750	19,537
328,710	328,710	-	-	-	-	-	-	-	-	-	-	1	-	1	751	19,866
113,560	113,560	-	-	-	-	-	-	-	-	-	-	-	1	1	752	19,979
134,630	134,630	-	-	-	-	-	-	-	-	-	-	-	1	1	753	20,114
279,630	279,630	-	-	-	-	-	-	-	-	-	-	-	1	1	754	20,394
324,890	324,890	-	-	-	-	-	-	-	-	-	-	-	1	1	755	20,719
														-	755	20,719

Totals	63	63	63	63	63	67	63	62	62	62	62	62	755	
													Average Usage	27,442
													Median Usage	6,500
													Average # Customers	63
													Change in Number of Customers	(1)

Pima Utility Company - Water Division  
 Test Year Ended December 31, 2010  
 Customer Classification Commercial 3/4 Inch Meter

Exhibit  
 Schedule H-5  
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 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
-	1,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1	1
1,001	2,000	1	-	-	-	1	1	-	2	-	-	-	2	7	8	11
2,001	3,000	-	1	1	1	-	-	-	-	-	1	1	-	5	13	24
3,001	4,000	-	1	-	-	1	1	1	-	1	-	1	1	7	20	48
4,001	5,000	1	1	1	1	1	1	2	-	-	1	-	-	9	29	89
5,001	6,000	-	-	-	1	-	-	-	-	-	-	-	-	1	30	94
6,001	7,000	-	-	-	-	-	-	-	1	-	-	-	-	1	31	101
7,001	8,000	-	-	-	-	-	-	-	-	-	-	1	-	1	32	108
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	108
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	108
10,001	12,000	-	-	1	-	-	-	-	-	-	-	-	-	1	33	119
12,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	33	119
14,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	33	119
16,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	33	119
18,001	20,000	-	-	-	-	-	-	-	1	-	1	-	-	2	35	157
20,001	25,000	-	-	-	-	-	-	-	-	-	1	-	-	1	36	180
25,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	36	180
30,001	35,000	-	1	-	-	-	-	-	-	1	-	-	-	2	38	245
35,001	40,000	1	-	1	-	-	-	-	-	-	-	-	-	2	40	320
40,001	45,000	-	-	-	1	-	-	-	-	-	-	-	-	1	41	362
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	362
50,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	362
60,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	362
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	362
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	362
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	41	362
273,100	273,100	-	-	-	-	1	-	-	-	-	-	-	-	1	42	635
203,400	203,400	-	-	-	-	-	1	-	-	-	-	-	-	1	43	839
201,000	201,000	-	-	-	-	-	-	1	-	-	-	-	-	1	44	1,040
131,100	131,100	-	-	-	-	-	-	-	1	-	-	-	-	1	45	1,171
113,300	113,300	-	-	-	-	-	-	-	-	1	-	-	-	1	46	1,284
107,300	107,300	-	-	-	-	-	-	-	-	-	-	1	-	1	47	1,391
120,000	120,000	-	-	-	-	-	-	-	-	-	-	-	1	1	48	1,511
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48	1,511
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48	1,511
Totals		4	4	4	4	4	4	4	4	4	4	4	4	48		
														Average Usage	31,484	
														Median Usage	4,500	
														Average # Customers	4	
														Change in Number of Customers	-	

Pima Utility Company - Water Division  
 Test Year Ended December 31, 2010  
 Customer Classification Commercial 1 Inch Meter

Exhibit  
 Schedule H-5  
 Page 5  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
1	1,000	7	6	3	7	4	4	4	3	3	7	4	5	57	57	37
1,001	2,000	6	7	8	6	5	5	6	7	5	6	7	6	74	131	114
2,001	3,000	4	4	3	3	4	5	5	5	5	4	5	4	51	182	161
3,001	4,000	1	3	3	3	2	1	-	2	1	1	-	2	19	201	196
4,001	5,000	3	2	1	-	3	-	-	-	-	-	-	1	10	211	300
5,001	6,000	2	2	4	3	1	2	1	-	2	3	2	1	23	234	344
6,001	7,000	-	1	-	1	-	1	1	-	1	-	2	1	8	242	402
7,001	8,000	1	2	1	1	-	-	-	3	1	-	-	-	9	251	425
8,001	9,000	2	-	-	-	1	-	-	-	-	-	-	-	3	254	467
9,001	10,000	1	1	-	-	1	-	-	1	-	1	-	-	5	259	496
10,001	12,000	-	-	1	1	-	-	-	-	-	-	1	-	3	262	683
12,001	14,000	1	1	2	-	2	2	2	1	1	2	1	2	17	279	787
14,001	16,000	-	1	1	1	1	-	-	-	1	2	1	-	8	287	982
16,001	18,000	3	2	1	1	1	1	2	-	-	1	-	1	13	300	1,186
18,001	20,000	2	-	2	2	-	-	1	-	1	-	1	3	12	312	1,281
20,001	25,000	-	1	1	-	-	2	-	-	-	-	1	-	5	317	1,506
25,001	30,000	1	-	1	2	2	1	1	-	-	1	-	1	10	327	1,946
30,001	35,000	5	2	2	1	1	-	1	2	-	1	-	1	16	343	2,563
35,001	40,000	3	1	-	2	-	2	2	2	2	1	2	2	19	362	3,163
40,001	45,000	-	1	-	1	-	2	2	2	3	2	-	3	16	378	3,843
45,001	50,000	1	1	1	-	4	1	1	1	-	2	2	2	16	394	4,841
50,001	60,000	2	-	4	2	2	2	-	2	1	-	4	2	21	415	5,941
60,001	70,000	1	3	2	1	4	-	-	1	3	2	1	2	20	435	6,786
70,001	80,000	-	-	-	2	1	3	2	-	2	1	1	1	13	448	7,761
80,001	90,000	2	-	-	-	1	1	1	1	-	4	1	2	13	461	9,206
90,001	100,000	-	-	1	-	-	1	2	1	7	1	3	1	17	478	10,536
101420	101,420	-	1	-	-	-	-	-	-	-	-	-	-	1	493	10,637
101970	101,970	-	-	-	-	-	-	-	-	-	-	1	-	1	494	10,739
104730	104,730	-	1	-	-	-	-	-	-	-	-	-	-	1	495	10,844
105000	105,000	-	-	-	-	1	-	-	-	-	-	-	-	1	496	10,949
105750	105,750	-	-	-	-	-	-	-	-	1	-	-	-	1	497	11,055
105800	105,800	-	-	-	-	-	-	-	-	-	1	-	-	1	498	11,160
108440	108,440	-	-	-	-	-	-	-	-	-	-	-	1	1	499	11,269
110090	110,090	-	-	-	1	-	-	-	-	-	-	-	-	1	500	11,379
110260	110,260	-	-	-	-	-	-	-	-	1	-	-	-	1	501	11,489
110610	110,610	-	-	-	-	-	-	-	-	-	-	1	-	1	502	11,600
111630	111,630	-	-	-	-	-	-	-	1	-	-	-	-	1	503	11,711
111970	111,970	-	-	-	1	-	-	-	-	-	-	-	-	1	504	11,823
122500	122,500	-	-	-	-	-	-	-	-	-	-	1	-	1	505	11,946
127200	127,200	-	-	-	-	1	-	-	-	-	-	-	-	1	506	12,073
128700	128,700	-	-	-	-	-	-	-	-	-	1	-	-	1	507	12,202
129300	129,300	-	-	-	-	-	-	-	-	-	-	1	-	1	508	12,331
129440	129,440	-	-	-	-	-	-	-	1	-	-	-	-	1	509	12,461
130870	130,870	-	-	-	-	1	-	-	-	-	-	-	-	1	510	12,591
131080	131,080	-	-	1	-	-	-	-	-	-	-	-	-	1	511	12,722
132540	132,540	-	-	-	-	-	1	-	-	-	-	-	-	1	512	12,855
133000	133,000	-	-	-	1	-	-	-	-	-	-	-	-	1	513	12,988
134660	134,660	-	-	-	-	1	-	-	-	-	-	-	-	1	514	13,123
136270	136,270	-	-	-	-	-	-	-	1	-	-	-	-	1	515	13,259
138000	138,000	-	-	-	-	-	-	1	-	-	-	-	-	1	516	13,397

Pima Utility Company - Water Division  
 Test Year Ended December 31, 2010  
 Customer Classification Commercial 1 Inch Meter

Exhibit  
 Schedule H-5  
 Page 5  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
138040	138,040	-	-	-	-	-	-	-	-	-	-	-	1	1	517	13,535
145300	145,300	-	-	-	-	-	-	1	-	-	-	-	-	1	518	13,680
152830	152,830	-	-	-	-	-	1	-	-	-	-	-	-	1	519	13,833
154700	154,700	-	-	-	1	-	-	-	-	-	-	-	-	1	520	13,988
157070	157,070	-	-	-	-	-	-	-	1	-	-	-	-	1	521	14,145
157110	157,110	-	-	-	-	-	-	-	-	1	-	-	-	1	522	14,302
158220	158,220	-	-	-	-	-	-	1	-	-	-	-	-	1	523	14,460
164030	164,030	1	-	-	-	-	-	-	-	-	-	-	-	1	524	14,624
171700	171,700	-	-	-	-	-	-	-	-	1	-	-	-	1	525	14,796
172320	172,320	-	-	-	1	-	-	-	-	-	-	-	-	1	526	14,968
175100	175,100	-	-	-	-	-	-	-	1	-	-	-	-	1	527	15,143
177700	177,700	-	-	-	-	-	-	-	-	1	-	-	-	1	528	15,321
178100	178,100	-	-	-	-	-	1	-	-	-	-	-	-	1	529	15,499
181900	181,900	-	-	-	-	-	-	-	-	-	1	-	-	1	530	15,681
182180	182,180	-	-	-	-	-	-	-	1	-	-	-	-	1	531	15,863
186600	186,600	-	-	-	-	1	-	-	-	-	-	-	-	1	532	16,050
188680	188,680	-	-	-	-	-	-	-	-	-	-	1	-	1	533	16,239
195520	195,520	-	-	-	-	-	-	-	-	-	-	-	1	1	534	16,434
204150	204,150	-	-	1	-	-	-	-	-	-	-	-	-	1	535	16,638
206990	206,990	-	-	-	-	-	-	1	-	-	-	-	-	1	536	16,845
207390	207,390	-	-	-	-	-	1	-	-	-	-	-	-	1	537	17,053
222200	222,200	-	-	-	-	-	1	-	-	-	-	-	-	1	538	17,275
226980	226,980	-	-	-	-	-	-	1	-	-	-	-	-	1	539	17,502
227590	227,590	-	-	-	-	-	-	1	-	-	-	-	-	1	540	17,729
229400	229,400	-	-	-	-	-	-	1	-	-	-	-	-	1	541	17,959
248100	248,100	-	-	-	-	-	1	-	-	-	-	-	-	1	542	18,207
248530	248,530	-	-	-	-	-	1	-	-	-	-	-	-	1	543	18,455
306500	306,500	-	-	-	-	-	-	-	1	-	-	-	-	1	544	18,762
313830	313,830	-	1	-	-	-	-	-	-	-	-	-	-	1	545	19,076
345250	345,250	-	-	-	-	-	-	1	-	-	-	-	-	1	546	19,421
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	546	19,421
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	546	19,421
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	546	19,421
Totals		49	45	45	45	45	45	45	45	45	45	46	46	546		
														Average Usage	35,570	
														Median Usage	11,000	
														Average # Customers	46	
														Change in Number of Customers	(3)	

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Customer Classification Commercial 1 1/2 Inch Meter

Exhibit  
Schedule H-5  
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Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
1	1,000	2	1	-	1	1	1	1	1	1	1	1	1	12	12	-
1,001	2,000	1	-	1	1	1	1	1	1	1	1	-	-	1	13	1
2,001	3,000	-	2	-	-	-	-	-	-	-	-	-	-	9	22	14
3,001	4,000	1	-	-	-	-	-	-	-	-	-	1	-	4	26	24
4,001	5,000	-	-	1	-	-	-	-	-	-	-	-	-	1	27	28
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	1	1	28	32
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	1	29	38
7,001	8,000	-	-	-	-	-	-	-	-	-	-	1	-	1	30	45
8,001	9,000	-	-	1	1	-	-	1	-	-	-	-	-	3	33	71
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	33	71
10,001	12,000	-	1	-	-	-	1	1	2	1	2	-	-	8	41	159
12,001	14,000	-	1	-	1	-	-	-	-	-	-	1	1	4	45	211
14,001	16,000	1	-	1	-	1	1	-	-	1	-	-	-	5	50	286
16,001	18,000	1	1	-	-	1	-	-	-	-	-	-	-	3	53	337
18,001	20,000	-	1	-	-	-	1	-	-	-	-	1	-	4	57	413
20,001	25,000	1	-	2	-	-	-	-	-	-	-	-	-	3	60	480
25,001	30,000	1	1	1	-	-	-	1	-	-	-	-	-	4	64	590
30,001	35,000	1	-	-	1	1	-	-	1	1	-	-	1	6	70	785
35,001	40,000	1	1	-	-	-	-	1	-	-	1	-	1	5	75	973
40,001	45,000	1	-	-	-	1	1	-	1	-	-	2	-	6	81	1,228
45,001	50,000	-	-	2	1	-	-	-	1	1	1	-	-	5	86	1,465
50,001	60,000	-	1	-	2	1	-	1	-	-	2	-	1	8	94	1,905
60,001	70,000	-	-	-	1	-	1	-	-	-	-	1	-	3	97	2,100
70,001	80,000	-	-	-	-	-	2	-	1	1	1	1	-	5	102	2,475
80,001	90,000	-	-	-	-	2	-	1	1	-	-	-	-	4	106	2,815
90,001	100,000	-	-	-	-	-	1	-	-	1	-	-	2	4	110	3,195
107,900	107,900	1	-	-	-	-	-	-	-	-	-	-	-	1	111	3,303
109,500	109,500	-	-	-	-	-	-	1	-	-	-	-	-	1	112	3,412
111,100	111,100	-	-	-	-	1	-	-	-	-	-	-	-	1	113	3,524
112,200	112,200	-	-	-	-	-	-	-	1	-	-	-	-	1	114	3,636
112,900	112,900	-	-	-	1	-	-	-	-	-	-	-	-	1	115	3,749
116,200	116,200	-	-	-	-	1	-	-	-	-	-	-	-	1	116	3,865
121,200	121,200	-	1	-	-	-	-	-	-	-	-	-	-	1	117	3,986
123,100	123,100	-	-	-	-	-	-	-	1	-	-	-	-	1	118	4,109
128,600	128,600	-	-	-	1	-	-	-	-	-	-	-	-	1	119	4,238
129,500	129,500	-	-	-	-	-	-	-	-	1	-	-	-	1	120	4,367
132,200	132,200	-	-	-	-	-	-	-	-	-	-	1	-	1	121	4,499
136,800	136,800	-	-	1	-	-	-	-	-	-	-	-	-	1	122	4,636
145,900	145,900	-	-	-	-	-	1	-	-	-	-	-	-	1	123	4,782
146,000	146,000	-	-	-	-	-	1	-	-	-	-	-	-	1	124	4,928
147,600	147,600	-	-	-	-	-	-	1	-	-	-	-	-	1	125	5,076
150,900	150,900	-	-	-	-	-	-	1	-	-	-	-	-	1	126	5,227
157,300	157,300	-	-	-	-	-	-	-	1	-	-	-	-	1	127	5,384
159,200	159,200	-	-	-	-	-	-	-	1	-	-	-	-	1	128	5,543
160,200	160,200	-	-	-	-	-	-	-	-	1	-	-	-	1	129	5,703
160,400	160,400	-	-	-	-	-	-	-	-	-	-	1	-	1	130	5,864
171,600	171,600	-	-	-	-	-	-	-	-	1	-	-	-	1	131	6,035
181,000	181,000	-	-	-	-	-	-	-	-	-	-	-	1	1	132	6,216
302,000	302,000	-	-	-	-	-	-	-	-	-	1	-	-	1	133	6,518
924,200	924,200	-	-	-	-	-	-	-	-	-	1	-	-	1	134	7,443

Pima Utility Company - Water Division  
 Test Year Ended December 31, 2010  
 Customer Classification Commercial 1 1/2 Inch Meter

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 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
Totals		12	11	11	11	11	12	11	11	11	11	11	11	134	134	7,443
														Average Usage	55,541	
														Median Usage	32,500	
														Average # Customers	11	
														Change in Number of Customers	(1)	

Pima Utility Company - Water Division  
 Test Year Ended December 31, 2010  
 Customer Classification Commercial 2 Inch Meter

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 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
1	1,000	2	3	4	3	3	3	4	2	3	3	2	2	34	34	-
1,001	2,000	2	1	2	3	2	2	-	2	-	3	4	2	23	57	12
2,001	3,000	6	4	4	3	3	5	5	4	5	5	2	4	50	107	87
3,001	4,000	3	2	2	2	3	2	3	5	3	2	3	5	35	142	174
4,001	5,000	1	1	3	1	2	2	2	-	1	5	3	2	23	165	255
5,001	6,000	1	4	1	2	1	2	2	1	1	3	2	1	21	186	349
6,001	7,000	2	1	1	3	-	-	2	1	1	-	2	-	13	199	421
7,001	8,000	-	2	1	1	2	2	-	1	-	-	1	1	11	210	492
8,001	9,000	-	1	1	-	1	2	2	1	1	-	-	-	9	219	560
9,001	10,000	2	1	-	-	-	-	-	1	-	1	-	2	7	226	619
10,001	11,000	-	2	2	1	1	1	-	1	-	-	2	-	11	237	724
11,001	12,000	4	9	2	3	2	1	1	1	3	-	-	3	29	266	1,043
12,001	13,000	4	2	2	2	3	-	2	-	-	1	2	1	19	285	1,290
13,001	14,000	-	2	1	-	1	4	-	2	1	1	1	1	14	299	1,500
14,001	15,000	5	3	2	3	-	-	1	-	1	1	3	-	19	318	1,823
15,001	16,000	1	5	3	1	-	1	-	2	2	-	1	3	19	337	2,184
16,001	17,000	5	3	3	1	1	1	1	-	1	2	2	4	24	361	2,724
17,001	18,000	5	3	7	4	2	4	1	2	1	4	3	1	37	398	3,741
18,001	19,000	6	6	4	-	1	3	1	3	2	2	1	1	30	428	4,716
19,001	20,000	3	5	5	3	5	2	2	1	-	4	-	1	31	459	5,879
20,001	21,000	1	2	7	-	1	-	1	2	2	2	3	6	27	486	7,026
21,001	22,000	5	5	2	2	1	2	2	1	1	1	-	2	24	510	8,166
22,001	23,000	4	3	4	2	2	5	2	4	6	1	5	7	45	555	10,641
23,001	24,000	7	2	4	6	4	4	4	2	2	4	1	2	38	593	13,111
24,001	25,000	4	4	1	2	2	1	4	3	1	3	2	3	30	623	15,361
25,001	26,000	1	5	6	5	5	1	3	4	5	1	5	3	44	667	19,101
26,001	27,000	5	2	1	2	2	1	1	2	2	5	3	3	29	696	21,856
27,001	28,000	-	-	-	-	-	-	-	1	-	-	-	-	1	697	21,956
28,001	29,000	-	-	1	-	-	-	-	-	-	-	-	-	1	698	22,057
29,001	30,000	-	1	-	-	-	-	-	-	-	-	-	-	1	699	22,158
30,001	31,000	1	-	-	-	-	-	-	-	-	-	-	-	1	700	22,259
31,001	32,000	-	-	-	-	-	1	-	-	-	-	-	-	1	701	22,360
32,001	33,000	1	1	-	-	-	-	-	-	-	-	-	-	2	703	22,563
33,001	34,000	-	-	-	-	-	-	-	-	1	-	-	-	1	704	22,666
34,001	35,000	-	1	-	-	-	-	-	-	-	-	-	-	1	705	22,768
35,001	36,000	-	-	-	-	1	-	-	-	1	-	-	-	2	707	22,974
36,001	37,000	-	-	-	-	1	1	-	-	-	-	-	-	1	708	23,077
37,001	38,000	-	-	-	-	1	-	-	-	-	-	-	-	1	709	23,180
38,001	39,000	-	-	-	1	-	-	-	-	-	-	-	-	1	710	23,285
39,001	40,000	-	-	-	1	-	-	-	-	-	-	-	-	1	711	23,391
40,001	41,000	-	-	1	-	-	-	-	-	-	-	-	1	2	713	23,602
41,001	42,000	-	-	-	-	-	-	-	-	-	-	1	-	1	714	23,707
42,001	43,000	-	-	-	-	-	1	-	-	-	-	-	-	1	715	23,814
43,001	44,000	-	-	1	-	-	-	-	-	-	-	-	-	1	716	23,921
44,001	45,000	-	-	-	-	-	-	-	-	1	-	-	-	1	717	24,028
45,001	46,000	1	-	1	-	-	-	-	-	-	-	-	-	2	719	24,243
46,001	47,000	-	-	-	-	-	-	-	-	1	-	-	-	1	720	24,353
47,001	48,000	-	-	-	-	-	-	-	-	-	-	1	-	1	721	24,464
48,001	49,000	-	-	-	-	-	-	1	-	-	-	-	-	1	722	24,574
49,001	50,000	1	-	-	-	-	-	-	-	-	-	-	-	1	723	24,684
50,001	51,000	-	-	-	-	-	-	-	-	-	1	-	-	1	724	24,795



Pima Utility Company - Water Division  
 Test Year Ended December 31, 2010  
 Customer Classification Commercial 2 Inch Meter

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 Schedule H-5  
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 Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
110,700	110,700	1	-	-	-	-	-	-	-	-	-	-	-	1	725	24,906
111,100	111,100	-	-	-	-	1	-	-	-	-	-	-	-	1	726	25,017
111,500	111,500	-	-	-	-	-	-	-	-	-	-	-	1	1	727	25,128
111,600	111,600	-	1	-	-	-	-	-	-	-	-	-	-	1	728	25,240
112,400	112,400	-	-	-	-	1	-	-	1	-	-	-	-	2	730	25,465
112,800	112,800	-	-	-	-	1	-	-	-	-	-	-	-	1	731	25,577
113,700	113,700	1	-	-	-	-	-	-	-	-	-	-	-	1	732	25,691
114,100	114,100	-	-	-	1	-	-	-	-	1	-	-	-	2	734	25,919
114,200	114,200	-	-	-	-	-	-	-	1	-	-	-	-	1	735	26,034
114,900	114,900	-	-	-	-	-	-	-	-	-	-	-	1	1	736	26,148
115,000	115,000	-	1	-	-	-	-	-	-	-	-	-	-	1	737	26,263
116,200	116,200	-	-	-	-	-	-	-	-	-	-	-	1	1	738	26,380
116,700	116,700	-	-	-	-	-	-	-	-	-	-	1	-	1	739	26,496
117,000	117,000	-	-	-	-	-	-	1	-	-	-	-	-	1	740	26,613
117,800	117,800	-	-	-	-	-	-	-	-	1	-	-	-	1	741	26,731
118,000	118,000	-	-	-	-	-	-	-	1	-	-	-	-	1	742	26,849
118,400	118,400	-	1	-	-	-	-	-	-	-	-	-	-	1	743	26,968
118,600	118,600	-	-	-	-	-	-	1	-	-	-	-	-	1	744	27,086
118,800	118,800	-	-	-	-	-	-	-	1	-	-	-	-	1	745	27,205
119,000	119,000	-	-	-	1	-	-	-	-	-	-	-	-	1	746	27,324
119,200	119,200	-	-	-	-	-	-	1	-	-	-	-	-	1	747	27,443
119,400	119,400	-	-	1	-	-	-	-	-	-	-	-	-	1	748	27,563
119,500	119,500	-	-	-	-	-	-	-	-	-	-	1	-	1	749	27,682
119,600	119,600	-	1	-	-	-	-	-	-	-	-	-	-	1	750	27,802
119,900	119,900	-	-	-	-	-	-	-	-	1	-	-	-	1	751	27,922
120,200	120,200	-	-	-	-	-	-	-	-	1	-	-	-	1	752	28,042
120,600	120,600	-	-	1	-	-	-	-	-	-	-	-	-	1	753	28,162
120,700	120,700	-	-	1	-	-	-	-	-	-	-	-	-	1	754	28,283
121,400	121,400	-	-	1	-	-	-	-	-	-	-	-	-	1	755	28,404
121,500	121,500	-	-	-	-	-	-	-	1	-	-	-	-	1	756	28,526
121,800	121,800	-	-	-	-	-	-	-	-	-	-	-	1	1	757	28,648
121,900	121,900	-	-	-	-	-	-	-	-	1	-	-	-	1	758	28,770
122,100	122,100	-	-	-	-	-	-	-	-	-	-	-	1	1	759	28,892
122,200	122,200	-	-	-	-	-	1	-	-	-	-	-	-	1	760	29,014
123,000	123,000	-	-	-	-	-	-	-	-	1	-	-	-	1	761	29,137
123,200	123,200	-	-	-	1	-	-	-	-	-	-	-	-	1	762	29,260
123,700	123,700	-	-	1	-	-	-	-	-	-	-	-	-	1	763	29,384
123,900	123,900	-	-	1	-	-	-	-	-	-	-	-	-	1	764	29,508
124,100	124,100	-	-	-	1	-	-	-	-	-	-	-	-	1	765	29,632
124,600	124,600	-	-	-	-	-	-	-	1	-	-	-	-	1	766	29,756
124,700	124,700	-	-	-	-	-	-	-	-	-	-	1	-	1	767	29,881
124,800	124,800	-	-	-	-	1	-	-	-	-	-	-	-	1	768	30,006
126,500	126,500	-	-	1	-	-	-	1	-	-	-	-	-	2	770	30,259
126,800	126,800	-	-	-	-	-	-	-	-	1	-	-	-	1	771	30,386
127,400	127,400	-	-	-	-	-	-	-	-	-	-	1	-	1	772	30,513
128,200	128,200	-	-	-	-	-	1	-	-	-	-	-	-	1	773	30,641
129,300	129,300	1	-	-	-	-	-	-	-	-	-	-	-	1	774	30,771
129,900	129,900	-	-	-	-	1	-	-	-	-	-	-	-	1	775	30,901
130,500	130,500	-	-	-	-	-	-	-	1	-	-	-	-	1	776	31,031
130,800	130,800	-	-	-	-	-	-	-	-	-	1	-	-	1	777	31,162
132,000	132,000	-	-	-	-	-	-	-	-	-	-	1	-	1	778	31,294

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Customer Classification Commercial 2 Inch Meter

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Schedule H-5  
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Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
132,100	132,100	-	-	-	-	-	-	1	-	-	-	-	-	1	779	31,426
132,400	132,400	-	-	-	-	-	-	-	1	-	-	-	-	1	780	31,558
132,700	132,700	-	-	-	-	-	-	-	1	-	-	-	-	1	781	31,691
133,000	133,000	-	-	-	-	-	-	-	-	-	-	1	-	1	782	31,824
134,000	134,000	-	-	-	1	-	-	-	-	-	-	-	-	1	783	31,958
134,100	134,100	-	1	-	-	-	-	-	-	-	-	-	-	1	784	32,092
134,500	134,500	-	-	-	-	-	-	-	-	1	-	-	-	1	785	32,227
135,000	135,000	-	-	-	-	-	-	-	1	-	-	-	-	1	786	32,362
136,500	136,500	-	-	-	-	-	-	1	-	-	-	-	-	1	787	32,498
136,800	136,800	-	-	-	-	-	-	-	-	-	-	-	1	1	788	32,635
137,000	137,000	1	-	-	-	-	-	-	-	-	-	-	-	1	789	32,772
137,900	137,900	-	-	-	-	-	-	-	-	-	-	1	-	1	790	32,910
139,000	139,000	-	-	-	-	-	1	-	-	-	-	-	-	1	791	33,049
139,700	139,700	-	-	-	-	-	-	-	-	1	-	-	-	1	792	33,189
141,700	141,700	-	-	-	1	-	-	-	-	-	-	-	-	1	793	33,330
142,100	142,100	-	-	1	-	-	-	-	-	-	-	-	-	1	794	33,472
142,300	142,300	-	-	-	-	-	-	-	-	-	-	1	-	1	795	33,615
143,400	143,400	-	-	-	-	-	1	-	-	-	-	-	-	1	796	33,758
144,000	144,000	-	-	-	-	-	-	-	-	-	-	-	1	1	797	33,902
144,300	144,300	-	-	-	1	-	-	-	-	-	-	-	-	1	798	34,046
144,700	144,700	-	-	-	-	-	-	-	-	-	-	1	-	1	799	34,191
144,900	144,900	-	-	-	-	-	-	-	-	-	-	-	1	1	800	34,336
145,700	145,700	-	-	-	1	-	-	-	-	-	-	-	-	1	801	34,482
146,800	146,800	-	-	-	-	1	-	-	-	-	-	-	-	1	802	34,628
147,600	147,600	-	-	-	-	-	-	-	-	-	-	1	-	1	803	34,776
148,100	148,100	-	-	-	-	-	-	-	-	-	1	-	-	1	804	34,924
148,200	148,200	-	-	-	-	-	-	-	-	-	1	-	-	1	805	35,072
148,600	148,600	-	-	-	-	-	-	-	-	-	1	-	-	1	806	35,221
148,800	148,800	-	-	-	1	-	-	-	-	-	-	-	-	1	807	35,370
148,900	148,900	-	1	-	-	-	-	-	-	-	-	-	-	1	808	35,519
149,400	149,400	-	-	-	-	-	-	-	1	-	-	-	-	1	809	35,668
150,200	150,200	1	-	-	-	-	-	-	-	-	-	-	-	1	810	35,818
151,100	151,100	-	-	-	-	-	-	-	1	-	-	-	-	1	811	35,969
151,200	151,200	-	-	-	1	-	-	-	-	-	-	-	-	1	812	36,121
151,400	151,400	-	1	-	-	-	-	-	-	-	-	-	-	1	813	36,272
152,700	152,700	-	-	-	-	-	-	-	1	-	-	-	-	1	814	36,425
152,900	152,900	-	-	-	-	-	1	-	-	-	-	-	-	1	815	36,578
153,500	153,500	-	-	-	-	-	-	-	-	-	-	-	1	1	816	36,731
155,300	155,300	-	-	-	-	-	-	1	-	-	-	-	-	1	817	36,886
155,400	155,400	-	-	-	-	-	-	-	-	1	-	-	-	1	818	37,042
155,900	155,900	-	-	1	-	-	-	-	-	-	1	-	-	1	819	37,198
156,200	156,200	1	-	-	-	-	-	-	-	-	-	-	-	1	820	37,354
156,500	156,500	-	-	-	-	-	-	-	-	-	-	-	1	1	821	37,510
156,700	156,700	-	-	-	-	-	-	1	-	-	-	-	-	1	822	37,667
157,500	157,500	-	-	-	1	-	-	-	-	-	-	-	-	1	823	37,825
158,400	158,400	1	-	-	-	-	-	-	-	-	-	-	-	1	824	37,983
159,600	159,600	1	-	-	-	-	-	-	-	-	-	-	-	1	825	38,143
161,000	161,000	-	1	-	-	-	-	-	-	-	-	-	-	1	826	38,304
161,100	161,100	-	-	-	-	-	-	-	1	-	-	-	-	1	827	38,465
162,900	162,900	-	1	-	-	-	-	-	-	-	-	-	-	1	828	38,628
163,600	163,600	-	-	-	-	-	-	-	-	-	1	-	-	1	829	38,791

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
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Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
164,100	164,100	1	-	-	-	-	-	-	-	-	-	-	-	1	830	38,955
164,800	164,800	1	-	-	-	-	-	-	-	-	-	-	-	1	831	39,120
165,000	165,000	-	-	-	-	-	-	-	-	-	1	-	-	1	832	39,285
165,800	165,800	-	-	1	-	-	-	-	-	-	-	-	-	1	833	39,451
166,600	166,600	1	-	-	-	-	-	-	-	-	-	-	-	1	834	39,617
167,400	167,400	-	-	-	-	-	1	-	-	-	-	-	-	1	835	39,785
170,100	170,100	-	-	1	-	-	-	-	-	-	-	-	-	1	836	39,955
170,600	170,600	-	-	-	1	-	-	-	-	-	-	-	-	1	837	40,126
171,300	171,300	-	-	-	-	-	-	-	-	2	-	-	-	2	839	40,468
174,200	174,200	-	-	-	-	-	1	-	-	-	-	-	-	1	840	40,642
174,300	174,300	-	-	-	-	-	-	-	-	-	1	-	-	1	841	40,817
174,400	174,400	-	-	-	-	-	-	-	1	-	-	-	-	1	842	40,991
175,400	175,400	-	-	-	-	-	-	-	-	-	-	1	-	1	843	41,166
175,900	175,900	-	-	-	-	1	-	-	-	-	-	-	-	1	844	41,342
176,400	176,400	-	-	-	-	-	-	-	-	1	-	-	-	2	846	41,695
176,600	176,600	-	-	-	-	-	-	-	-	-	-	-	1	1	847	41,872
176,700	176,700	-	-	-	-	-	-	1	-	-	-	-	-	1	848	42,048
176,800	176,800	-	-	1	-	-	-	-	-	1	-	-	-	2	850	42,402
177,000	177,000	-	-	-	-	-	-	-	1	-	-	-	-	1	851	42,579
177,500	177,500	-	-	-	-	-	1	-	-	-	-	-	-	1	852	42,757
177,800	177,800	-	-	-	-	-	-	-	-	1	-	-	-	1	853	42,934
178,400	178,400	-	-	-	-	-	-	-	1	-	-	-	-	1	854	43,113
178,600	178,600	1	-	-	-	-	-	-	-	-	-	-	-	1	855	43,291
178,900	178,900	-	-	-	-	-	1	-	-	-	-	-	-	1	856	43,470
179,400	179,400	-	-	-	-	-	-	-	-	1	-	-	-	1	857	43,650
179,900	179,900	-	-	-	-	-	-	-	-	-	-	-	1	1	858	43,830
180,300	180,300	-	-	-	-	-	-	1	-	-	-	-	-	1	859	44,010
181,200	181,200	-	-	-	-	-	-	-	-	-	-	-	1	1	860	44,191
182,000	182,000	-	-	-	-	-	-	-	-	-	-	-	1	1	861	44,373
182,100	182,100	-	-	-	-	1	-	-	-	-	-	-	-	1	862	44,555
182,300	182,300	-	-	-	-	-	-	-	-	-	-	1	-	2	864	44,920
182,600	182,600	-	-	-	-	-	-	-	-	-	1	-	-	1	865	45,102
182,800	182,800	-	-	-	-	-	1	-	-	-	-	-	-	1	866	45,285
183,300	183,300	-	-	-	-	-	-	-	-	-	-	1	-	1	867	45,468
183,800	183,800	-	-	-	-	-	-	-	-	-	1	-	-	1	868	45,652
184,100	184,100	-	-	-	-	1	-	-	-	-	-	-	-	1	869	45,836
184,200	184,200	-	-	-	-	-	1	-	-	-	-	-	-	1	870	46,021
185,100	185,100	-	-	-	-	-	-	-	-	-	-	-	1	1	871	46,206
186,200	186,200	-	-	-	-	-	-	-	1	-	-	-	-	1	872	46,392
186,700	186,700	-	-	-	1	-	-	-	-	-	-	-	-	1	873	46,579
187,300	187,300	-	-	-	-	-	-	-	-	-	-	-	1	1	874	46,766
187,600	187,600	-	-	-	-	1	-	-	-	-	-	-	-	1	875	46,953
188,400	188,400	-	-	-	-	-	-	-	-	1	-	-	-	1	876	47,142
188,900	188,900	-	-	-	-	-	-	-	-	-	-	1	-	1	877	47,331
190,000	190,000	-	-	-	-	1	-	-	-	-	-	-	-	1	878	47,521
190,900	190,900	-	-	-	-	-	-	-	-	-	1	-	-	1	879	47,712
193,400	193,400	-	-	-	-	-	-	-	-	-	-	1	-	1	880	47,905
194,000	194,000	-	-	-	1	-	-	-	-	-	-	-	-	1	881	48,099
194,200	194,200	-	-	-	1	-	-	-	-	-	-	-	-	1	882	48,293
195,500	195,500	-	-	-	-	-	-	-	-	1	-	-	-	1	883	48,489
197,200	197,200	-	-	-	-	-	-	-	-	-	-	1	-	1	884	48,686

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
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Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
197,300	197,300	-	-	-	-	-	-	-	-	-	1	-	-	1	885	48,883
199,800	199,800	-	-	-	1	-	-	-	-	-	-	-	-	1	886	49,083
201,300	201,300	-	-	-	-	-	-	1	-	-	-	-	-	1	887	49,284
202,500	202,500	-	-	-	-	-	-	-	-	-	-	-	1	1	888	49,487
203,800	203,800	-	-	1	-	-	-	-	-	-	-	-	1	1	889	49,691
206,300	206,300	-	-	-	-	-	1	-	-	1	-	-	-	2	891	50,103
206,800	206,800	-	-	-	1	-	-	-	-	-	-	-	-	1	892	50,310
207,100	207,100	-	-	-	-	-	-	-	-	-	-	1	-	1	893	50,517
207,300	207,300	-	-	-	-	-	-	-	-	-	1	-	-	1	894	50,724
207,700	207,700	-	-	-	-	-	1	-	-	-	-	1	-	2	896	51,140
207,800	207,800	-	-	-	-	-	-	-	-	1	-	-	-	1	897	51,348
208,600	208,600	-	-	-	-	-	-	-	-	-	-	-	1	1	898	51,556
209,400	209,400	-	-	-	-	-	-	-	-	-	1	-	-	1	899	51,766
212,000	212,000	-	-	-	-	-	-	-	1	-	-	-	-	1	900	51,978
213,000	213,000	-	-	1	-	-	-	-	-	-	-	-	-	1	901	52,191
213,300	213,300	-	-	-	-	-	-	-	-	-	-	-	1	1	902	52,404
213,700	213,700	-	-	-	-	-	-	1	-	-	-	-	-	1	903	52,618
220,300	220,300	-	-	-	-	-	1	-	-	-	-	-	-	1	904	52,838
221,000	221,000	-	-	-	-	-	-	1	-	-	-	-	-	1	905	53,059
221,300	221,300	-	-	-	-	-	-	1	-	-	-	-	-	1	906	53,280
222,200	222,200	-	-	-	-	-	1	-	-	-	-	-	-	1	907	53,502
222,300	222,300	-	-	-	-	-	-	-	-	-	-	-	1	1	908	53,725
222,400	222,400	-	-	-	-	-	-	-	-	-	-	1	-	1	909	53,947
222,500	222,500	-	-	-	-	-	-	-	-	-	-	-	1	1	910	54,170
223,200	223,200	-	-	-	1	-	-	-	-	-	-	-	-	1	911	54,393
224,100	224,100	-	-	-	-	-	-	-	1	-	-	-	-	1	912	54,617
225,300	225,300	-	-	-	-	-	-	-	-	1	1	-	-	2	914	55,068
225,600	225,600	-	-	-	-	-	-	-	-	-	1	-	-	1	915	55,293
226,200	226,200	-	-	-	-	-	-	1	-	-	-	-	-	1	916	55,519
226,300	226,300	-	-	-	1	-	-	-	-	-	-	-	-	1	917	55,746
226,600	226,600	-	-	-	-	-	-	-	-	-	1	-	-	1	918	55,972
227,500	227,500	-	-	-	1	-	-	-	-	-	-	-	-	1	919	56,200
227,600	227,600	-	-	-	-	-	-	-	-	-	-	1	1	2	921	56,655
227,700	227,700	-	-	-	-	1	-	-	-	-	-	-	-	1	922	56,883
228,400	228,400	-	-	-	1	-	-	-	-	-	-	-	-	1	923	57,111
230,300	230,300	-	-	-	-	-	-	1	1	-	-	-	-	2	925	57,572
231,000	231,000	-	-	-	-	-	1	-	-	-	-	-	-	1	926	57,803
232,200	232,200	-	-	-	-	-	-	-	-	-	1	-	-	1	927	58,035
232,900	232,900	-	-	-	-	-	-	-	-	-	-	-	1	1	928	58,268
233,400	233,400	-	-	-	-	-	-	-	-	-	-	1	-	1	929	58,501
233,900	233,900	-	-	-	-	-	-	-	1	-	-	-	-	1	930	58,735
236,400	236,400	-	-	-	-	-	-	-	-	-	-	1	-	1	931	58,971
237,900	237,900	-	-	-	1	-	-	-	-	-	-	-	-	1	932	59,209
238,900	238,900	-	-	-	-	-	-	-	-	-	1	-	-	1	933	59,448
241,300	241,300	-	-	-	-	-	-	1	-	-	-	-	-	1	934	59,690
242,800	242,800	-	-	-	1	-	-	-	-	-	-	-	-	1	935	59,932
243,400	243,400	-	-	-	-	-	1	-	-	-	-	-	-	1	936	60,176
243,700	243,700	-	-	-	-	-	-	-	1	-	-	-	-	1	937	60,419
244,400	244,400	-	-	-	-	1	-	-	-	-	-	-	-	1	938	60,664
245,200	245,200	-	-	-	-	1	-	-	-	-	-	-	-	1	939	60,909
245,600	245,600	-	-	-	-	-	-	-	-	1	-	-	-	1	940	61,155

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
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Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
245,800	245,800	-	1	-	-	-	-	-	-	-	-	-	-	1	941	61,400
246,300	246,300	-	-	-	-	-	-	-	-	-	-	-	1	1	942	61,647
248,100	248,100	-	-	-	1	-	-	-	-	-	-	-	-	1	943	61,895
251,900	251,900	-	-	-	-	-	-	-	-	-	-	1	-	1	944	62,147
256,200	256,200	-	-	-	-	-	-	-	-	1	-	-	-	1	945	62,403
256,600	256,600	-	-	-	1	-	-	-	-	-	-	-	-	1	946	62,660
257,100	257,100	-	-	-	-	-	-	-	1	-	-	-	-	1	947	62,917
258,600	258,600	-	-	-	-	-	1	-	-	-	-	-	-	1	948	63,175
260,400	260,400	-	-	-	-	-	-	-	-	1	-	-	-	1	949	63,436
263,700	263,700	-	-	-	-	-	-	-	1	-	-	-	-	1	950	63,699
264,300	264,300	-	-	-	-	-	-	1	-	-	-	-	-	1	951	63,964
265,200	265,200	-	-	-	-	-	-	-	-	-	-	1	-	1	952	64,229
266,800	266,800	-	-	-	-	-	1	-	-	-	-	-	-	1	953	64,496
268,500	268,500	-	-	-	1	-	-	-	-	-	-	-	-	1	954	64,764
272,500	272,500	-	-	-	-	-	-	-	-	-	1	-	-	1	955	65,037
272,900	272,900	-	-	-	-	1	-	-	-	-	-	-	-	1	956	65,310
273,100	273,100	-	-	-	-	1	-	-	-	-	-	-	-	1	957	65,583
274,500	274,500	-	-	-	-	-	-	-	-	-	-	-	1	1	958	65,857
274,600	274,600	-	-	-	-	1	-	-	-	-	-	-	-	1	959	66,132
276,400	276,400	-	-	1	-	-	-	-	-	-	-	-	-	1	960	66,408
282,800	282,800	-	-	-	1	-	-	-	-	-	-	-	-	1	961	66,691
283,700	283,700	-	-	-	-	-	-	1	-	-	-	-	-	1	962	66,975
283,900	283,900	-	-	1	-	-	-	-	-	-	-	-	-	1	963	67,259
284,000	284,000	-	-	-	1	-	-	-	-	-	-	-	-	1	964	67,543
284,900	284,900	-	-	-	-	-	-	-	-	-	-	1	-	1	965	67,827
287,900	287,900	-	-	-	-	-	-	-	-	-	1	-	-	1	966	68,115
288,300	288,300	-	-	-	-	-	-	-	-	-	-	-	1	1	967	68,404
289,000	289,000	-	-	-	-	-	-	-	-	1	-	-	-	1	968	68,693
291,500	291,500	-	-	-	-	-	-	-	-	-	1	-	-	1	969	68,984
293,200	293,200	-	-	-	-	1	-	-	-	-	-	-	-	1	970	69,277
294,400	294,400	-	-	-	-	-	-	-	-	-	-	-	1	1	971	69,572
295,800	295,800	-	-	-	-	-	-	1	-	-	-	-	-	1	972	69,868
296,100	296,100	-	-	-	-	1	-	-	-	-	-	-	-	1	973	70,164
296,500	296,500	-	-	-	-	-	1	-	-	-	-	-	-	1	974	70,460
297,100	297,100	-	-	-	-	1	-	-	-	-	-	-	-	1	975	70,757
297,700	297,700	-	-	-	-	-	-	-	-	1	-	-	-	1	976	71,055
298,100	298,100	-	-	-	-	-	-	-	-	-	-	1	-	1	977	71,353
298,200	298,200	-	-	-	-	-	-	1	-	-	-	-	-	1	978	71,651
298,600	298,600	-	-	-	-	-	-	-	1	-	-	-	-	1	979	71,950
299,700	299,700	-	-	-	-	-	-	-	-	-	1	-	-	1	980	72,250
300,000	300,000	-	-	-	-	-	1	-	-	-	-	-	-	1	981	72,550
301,200	301,200	-	-	-	-	-	-	-	-	-	-	1	-	1	982	72,851
301,300	301,300	-	-	-	-	-	-	-	-	-	-	1	-	1	983	73,152
302,000	302,000	-	-	-	-	-	-	-	-	1	-	-	-	1	984	73,454
303,700	303,700	-	-	-	-	-	-	-	1	-	-	-	-	1	985	73,758
304,900	304,900	-	-	-	-	-	-	1	-	-	-	-	-	1	986	74,063
305,600	305,600	-	-	-	-	1	-	-	-	-	-	-	-	1	987	74,368
309,600	309,600	-	-	-	1	-	-	-	-	-	-	-	-	1	988	74,678
311,900	311,900	-	-	-	-	-	1	-	-	-	-	-	-	1	989	74,990
313,300	313,300	-	-	-	-	1	-	-	-	-	-	-	-	1	990	75,303
314,400	314,400	-	-	-	-	-	-	-	-	1	-	-	-	1	991	75,617

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
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Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
315,100	315,100	-	-	-	-	1	-	-	-	-	-	-	-	1	992	75,933
316,500	316,500	-	-	-	-	-	-	-	-	1	-	-	-	1	993	76,249
318,000	318,000	-	-	-	-	-	-	-	-	-	-	-	1	1	994	76,567
319,500	319,500	-	-	-	-	-	-	-	-	1	-	-	-	1	995	76,887
322,000	322,000	-	-	-	1	-	-	-	-	-	-	-	-	1	996	77,209
322,700	322,700	-	-	-	-	-	-	1	-	-	-	-	-	1	997	77,531
324,300	324,300	-	-	-	-	1	-	-	-	-	-	-	-	1	998	77,856
324,900	324,900	-	-	-	-	-	-	-	-	-	1	-	-	1	999	78,180
327,200	327,200	-	-	-	-	1	-	-	-	-	-	-	-	1	1,000	78,508
327,400	327,400	-	-	-	-	-	-	-	-	-	-	-	1	1	1,001	78,835
330,500	330,500	-	-	-	-	-	-	-	1	-	-	-	-	1	1,002	79,166
331,400	331,400	-	-	-	-	-	1	-	1	-	-	-	-	1	1,003	79,497
331,500	331,500	-	-	-	-	-	-	-	-	1	-	-	-	1	1,004	79,828
332,700	332,700	-	-	-	-	-	-	-	-	-	-	1	-	1	1,005	80,161
332,800	332,800	-	-	-	-	-	-	1	-	-	-	-	-	1	1,006	80,494
334,100	334,100	-	-	-	-	-	-	-	-	-	-	-	1	1	1,007	80,828
335,300	335,300	-	-	-	-	1	-	-	-	-	-	-	-	1	1,008	81,163
336,700	336,700	-	-	-	-	-	-	1	-	-	-	-	-	1	1,009	81,500
338,000	338,000	-	-	-	-	-	-	-	-	-	2	-	-	2	1,011	82,176
338,400	338,400	-	-	-	-	-	-	-	1	-	-	-	-	1	1,012	82,514
339,400	339,400	-	-	-	-	-	-	-	-	-	-	1	-	1	1,013	82,854
340,300	340,300	-	-	-	-	-	-	-	-	-	-	-	1	1	1,014	83,194
341,400	341,400	-	-	-	1	-	-	-	-	-	-	-	-	1	1,015	83,536
341,600	341,600	-	-	1	-	-	-	-	-	-	-	-	-	1	1,016	83,877
342,100	342,100	-	-	-	-	-	-	-	1	-	-	-	-	1	1,017	84,219
345,100	345,100	-	-	-	-	-	1	-	-	-	-	-	-	1	1,018	84,564
345,200	345,200	-	-	-	-	-	-	1	-	-	-	-	-	1	1,019	84,910
345,600	345,600	-	-	-	-	-	-	-	-	-	-	-	1	1	1,020	85,255
346,200	346,200	-	-	-	1	-	-	-	-	-	-	-	-	1	1,021	85,601
348,700	348,700	-	-	-	-	-	1	-	-	-	-	-	-	1	1,022	85,950
351,800	351,800	-	-	-	-	-	-	-	1	-	-	-	-	1	1,023	86,302
352,600	352,600	-	-	-	-	-	-	-	1	-	-	-	-	1	1,024	86,654
352,900	352,900	-	-	-	1	-	-	-	-	-	-	-	-	1	1,025	87,007
357,800	357,800	-	-	-	-	-	-	-	-	1	-	-	-	1	1,026	87,365
358,500	358,500	-	-	-	-	-	1	-	-	-	-	-	-	1	1,027	87,724
359,000	359,000	1	-	-	-	-	-	-	-	-	-	-	-	1	1,028	88,083
359,200	359,200	-	-	-	-	-	-	-	-	-	-	1	-	1	1,029	88,442
361,100	361,100	-	-	-	-	-	-	-	1	-	-	-	-	1	1,030	88,803
361,300	361,300	-	-	-	-	-	-	-	-	-	-	-	1	1	1,031	89,164
366,800	366,800	-	-	-	1	-	-	-	-	-	-	-	-	1	1,032	89,531
377,000	377,000	-	-	-	-	-	-	-	1	-	-	-	-	1	1,033	89,908
377,800	377,800	-	-	-	-	-	1	-	-	-	-	-	-	1	1,034	90,286
380,100	380,100	-	-	-	-	-	1	-	-	-	-	-	-	1	1,035	90,666
383,000	383,000	-	-	-	-	-	-	-	-	1	-	-	-	1	1,036	91,049
383,800	383,800	-	-	-	-	-	-	-	-	-	1	-	-	1	1,037	91,433
388,600	388,600	-	-	-	-	-	-	-	1	-	-	-	-	1	1,038	91,821
388,700	388,700	-	-	-	-	-	-	-	1	-	-	-	-	1	1,039	92,210
390,600	390,600	-	-	-	-	1	-	-	-	-	-	-	-	1	1,040	92,601
391,100	391,100	-	-	-	-	1	-	-	-	-	-	-	-	1	1,041	92,992
394,400	394,400	-	-	-	-	-	1	-	-	-	-	-	-	1	1,042	93,386
395,200	395,200	-	-	-	-	-	-	1	-	-	-	-	-	1	1,043	93,781

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Customer Classification Commercial 2 Inch Meter

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Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
396,800	396,800	-	-	-	-	-	-	-	-	-	1	-	-	1	1,044	94,178
398,700	398,700	-	-	-	-	-	-	-	-	1	-	-	-	1	1,045	94,577
399,800	399,800	-	-	-	-	-	-	-	-	-	1	-	-	1	1,046	94,977
403,200	403,200	-	-	-	-	-	-	-	-	-	-	1	-	1	1,047	95,380
404,700	404,700	-	-	-	1	-	-	-	-	-	-	-	-	1	1,048	95,785
408,200	408,200	-	-	-	-	1	1	-	-	-	-	-	-	1	1,049	96,193
409,100	409,100	-	-	-	-	1	-	-	-	-	-	-	-	1	1,050	96,602
414,700	414,700	-	-	-	-	-	1	-	-	-	-	-	-	1	1,051	97,017
415,400	415,400	-	-	-	-	1	-	-	-	-	-	-	-	1	1,052	97,432
417,900	417,900	-	-	-	-	-	-	-	1	-	-	-	-	1	1,053	97,850
418,300	418,300	-	-	-	-	-	-	-	-	1	-	-	-	1	1,054	98,266
419,300	419,300	-	-	-	-	-	-	-	-	-	1	-	-	1	1,055	98,687
420,000	420,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1,056	99,107
420,100	420,100	-	-	-	-	-	-	1	-	-	-	-	-	1	1,057	99,528
420,600	420,600	-	-	-	-	1	-	-	-	1	-	-	-	2	1,059	100,369
421,900	421,900	-	-	-	-	-	1	-	-	-	-	-	-	1	1,060	100,791
423,100	423,100	-	-	-	-	-	-	1	-	-	-	-	-	1	1,061	101,214
424,400	424,400	-	-	-	-	-	-	-	-	-	-	1	-	1	1,062	101,638
428,900	428,900	-	-	-	1	-	-	-	-	-	-	-	-	1	1,063	102,067
437,000	437,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1,064	102,504
438,900	438,900	-	-	-	-	-	-	-	-	1	-	-	-	1	1,065	102,943
439,900	439,900	-	-	-	-	-	-	-	-	-	-	1	-	1	1,066	103,383
448,400	448,400	-	-	-	-	-	-	1	-	-	-	-	-	1	1,067	103,831
449,900	449,900	-	-	-	-	-	-	-	-	-	1	-	-	1	1,068	104,281
453,800	453,800	-	-	-	-	-	1	-	-	-	-	-	-	1	1,069	104,735
454,600	454,600	-	-	-	-	-	-	-	-	1	-	-	-	1	1,070	105,190
455,500	455,500	-	-	-	-	-	1	-	-	-	-	-	-	1	1,071	105,645
462,000	462,000	-	-	-	-	-	-	-	1	-	-	-	-	1	1,072	106,107
462,200	462,200	-	-	-	-	-	-	-	-	-	1	-	-	1	1,073	106,569
462,500	462,500	-	-	-	-	-	-	1	-	-	-	-	-	1	1,074	107,032
463,500	463,500	-	-	-	-	-	-	-	1	-	-	-	-	1	1,075	107,495
466,300	466,300	-	-	-	-	-	-	-	-	-	-	1	-	1	1,076	107,962
469,500	469,500	-	-	-	-	-	-	-	-	-	1	-	-	1	1,077	108,431
470,000	470,000	-	-	-	-	-	1	-	-	-	-	-	-	1	1,078	108,901
471,000	471,000	-	-	-	-	-	-	-	-	-	1	-	-	1	1,079	109,372
472,300	472,300	-	-	-	-	-	-	1	-	-	-	-	-	1	1,080	109,844
481,500	481,500	-	-	-	-	-	-	1	-	-	1	-	-	2	1,082	110,807
482,300	482,300	-	-	-	-	-	-	-	-	-	1	1	-	2	1,084	111,772
488,600	488,600	-	-	-	-	-	-	1	-	-	-	-	-	1	1,085	112,261
493,000	493,000	-	-	-	-	-	-	-	1	-	-	-	-	1	1,086	112,754
501,600	501,600	-	-	-	1	-	-	-	-	-	-	-	-	1	1,087	113,255
503,100	503,100	-	-	-	-	-	-	-	-	1	-	-	-	1	1,088	113,758
509,600	509,600	-	-	-	-	1	-	-	-	-	-	-	-	1	1,089	114,268
514,900	514,900	-	-	-	-	1	-	-	-	-	-	-	-	1	1,090	114,783
523,300	523,300	-	-	-	-	-	-	-	-	-	-	-	1	1	1,091	115,306
528,000	528,000	-	-	-	-	-	-	1	-	-	-	-	-	1	1,092	115,834
540,800	540,800	-	-	-	1	-	-	-	-	-	-	-	-	1	1,093	116,375
543,700	543,700	-	-	-	-	-	-	1	-	-	-	-	-	1	1,094	116,919
544,900	544,900	-	-	-	-	1	-	-	-	-	-	-	-	1	1,095	117,463
553,000	553,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,096	118,016
555,600	555,600	-	-	-	-	-	-	-	1	-	-	-	-	1	1,097	118,572

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Customer Classification Commerical 2 Inch Meter

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Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
566,400	566,400	-	-	-	-	-	-	1	-	-	-	-	-	1	1,098	119,138
589,300	589,300	-	-	-	-	-	-	-	-	-	-	1	-	1	1,099	119,728
608,500	608,500	-	-	-	-	-	-	-	-	1	-	-	-	1	1,100	120,336
613,500	613,500	-	-	-	-	1	-	-	-	-	-	-	-	1	1,101	120,950
617,100	617,100	-	-	-	-	-	1	-	-	-	-	-	-	1	1,102	121,567
618,100	618,100	-	-	-	-	-	-	-	-	-	1	-	-	1	1,103	122,185
620,200	620,200	-	-	-	-	-	-	-	-	1	-	-	-	1	1,104	122,805
627,900	627,900	-	-	-	-	1	-	-	-	-	-	-	-	1	1,105	123,433
628,300	628,300	-	-	-	-	1	-	-	-	-	-	-	-	1	1,106	124,061
630,200	630,200	-	-	-	-	-	-	-	-	-	-	1	-	1	1,107	124,692
630,400	630,400	-	-	-	-	-	1	-	-	-	-	-	-	1	1,108	125,322
631,300	631,300	-	-	-	-	-	-	-	-	1	-	-	-	1	1,109	125,953
632,400	632,400	-	-	-	-	-	-	1	-	-	-	-	-	1	1,110	126,586
633,600	633,600	-	-	-	-	1	-	-	-	-	-	-	-	1	1,111	127,219
647,900	647,900	-	-	-	-	-	-	1	-	-	-	-	-	1	1,112	127,867
652,600	652,600	-	-	-	-	-	-	-	-	-	1	-	-	1	1,113	128,520
660,200	660,200	-	-	-	-	-	-	-	1	-	-	-	-	1	1,114	129,180
664,900	664,900	-	-	-	-	-	-	-	-	-	-	-	1	1	1,115	129,845
665,500	665,500	-	-	-	-	-	-	1	-	-	-	-	-	1	1,116	130,510
670,900	670,900	-	-	-	-	-	-	1	-	-	-	-	-	1	1,117	131,181
673,900	673,900	-	-	-	-	-	-	-	-	-	-	1	-	1	1,118	131,855
674,800	674,800	-	-	-	-	-	1	-	-	-	-	-	-	1	1,119	132,530
674,900	674,900	-	-	-	-	-	-	-	1	-	-	-	-	1	1,120	133,205
676,300	676,300	-	-	-	-	-	1	-	-	-	-	-	-	1	1,121	133,881
679,500	679,500	-	-	-	-	-	1	-	-	-	-	-	-	1	1,122	134,561
688,900	688,900	-	-	-	1	-	-	-	-	-	-	-	-	1	1,123	135,250
689,200	689,200	-	-	-	-	-	-	-	-	-	-	-	1	1	1,124	135,939
693,500	693,500	-	-	-	-	-	-	1	-	-	-	-	-	1	1,125	136,632
701,000	701,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,126	137,333
702,800	702,800	-	-	-	-	-	-	-	-	-	1	-	-	1	1,127	138,036
713,500	713,500	-	-	-	-	-	-	-	1	-	-	-	-	1	1,128	138,750
720,200	720,200	-	-	-	-	-	-	-	-	-	-	1	-	1	1,129	139,470
729,100	729,100	-	-	-	-	-	1	-	-	-	-	-	-	1	1,130	140,199
735,100	735,100	-	-	-	-	-	-	-	-	-	-	1	-	1	1,131	140,934
744,500	744,500	-	-	-	-	-	1	-	-	-	-	-	-	1	1,132	141,678
753,900	753,900	-	-	-	-	-	-	-	1	-	-	-	-	1	1,133	142,432
759,300	759,300	-	-	-	-	-	-	-	-	1	-	-	-	1	1,134	143,192
763,700	763,700	-	-	-	-	-	-	-	1	-	-	-	-	1	1,135	143,955
776,700	776,700	-	-	-	-	-	-	1	-	-	-	-	-	1	1,136	144,732
793,800	793,800	-	-	-	-	-	1	-	-	-	-	-	-	1	1,137	145,526
811,100	811,100	-	-	-	-	-	-	-	1	-	-	-	-	1	1,138	146,337
821,200	821,200	-	-	-	-	1	-	-	-	-	-	-	-	1	1,139	147,158
824,700	824,700	-	-	-	-	-	-	-	1	-	-	-	-	1	1,140	147,983
840,000	840,000	-	-	-	-	-	-	1	-	-	-	-	-	1	1,141	148,823
853,600	853,600	-	-	-	-	-	-	-	-	-	1	-	-	1	1,142	149,676
855,500	855,500	-	-	-	-	-	-	-	1	-	-	-	-	1	1,143	150,532
860,300	860,300	-	-	-	-	-	-	1	-	-	-	-	-	1	1,144	151,392
895,900	895,900	-	-	-	-	-	1	-	-	-	-	-	-	1	1,145	152,288
903,400	903,400	-	-	-	-	-	-	1	-	-	-	-	-	1	1,146	153,192
938,300	938,300	-	-	-	-	1	-	-	-	-	-	-	-	1	1,147	154,130
954,700	954,700	-	-	-	-	-	1	-	-	-	-	-	-	1	1,148	155,085



Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Customer Classification Commerical 2 Inch Meter

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Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
956,500	956,500	-	-	-	-	1	-	-	-	-	-	-	-	1	1,149	156,041
975,300	975,300	-	-	-	-	-	-	1	-	-	-	-	-	1	1,150	157,016
1,003,700	1,003,700	-	-	-	-	-	-	-	1	-	-	-	-	1	1,151	158,020
1,039,700	1,039,700	-	-	-	-	-	-	-	-	-	1	-	-	1	1,152	159,060
1,069,300	1,069,300	-	-	-	-	-	-	1	-	-	-	-	-	1	1,153	160,129
1,081,800	1,081,800	-	-	-	-	-	-	1	-	-	-	-	-	1	1,154	161,211
1,086,500	1,086,500	-	-	-	-	-	1	-	-	-	-	-	-	1	1,155	162,297
1,136,400	1,136,400	-	-	-	-	-	1	-	-	-	-	-	-	1	1,156	163,434
1,169,600	1,169,600	-	-	-	-	-	1	-	-	-	-	-	-	1	1,157	164,603
1,226,300	1,226,300	-	-	-	-	-	1	-	-	-	-	-	-	1	1,158	165,830
1,361,800	1,361,800	-	-	-	-	1	-	-	-	-	-	-	-	1	1,159	167,191
Totals		96	96	96	96	96	100	96	96	96	97	97	97	861		
														Average Usage	51,537	
														Median Usage	65,000	
														Average # Customers	72	
														Change in Number of Customers	1	

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Customer Classification Irrigation

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Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
107,900	107,900		1											1	1	108
139,000	139,000			1										1	2	247
191,000	191,000	1												1	3	438
204,700	204,700										1			1	4	643
711,800	711,800			1										1	5	1,354
919,900	919,900	1												1	6	2,274
1,378,000	1,378,000						1							1	7	3,652
1,837,000	1,837,000												1	1	8	5,489
1,876,900	1,876,900												1	1	9	7,366
2,666,400	2,666,400								1		1			1	10	10,033
3,185,600	3,185,600									1				1	11	13,218
3,386,000	3,386,000						1							1	12	16,604
3,443,000	3,443,000				1									1	13	20,047
4,322,700	4,322,700					1								1	14	24,370
4,453,000	4,453,000									1				1	15	28,823
4,742,500	4,742,500												1	1	16	33,565
5,208,000	5,208,000				1									1	17	38,773
5,404,400	5,404,400	1												1	18	44,178
5,539,500	5,539,500					1								1	19	49,717
6,103,000	6,103,000		1											1	20	55,820
6,218,000	6,218,000				1									1	21	62,038
6,253,000	6,253,000							1						1	22	68,291
6,867,000	6,867,000								1					1	23	75,158
7,814,000	7,814,000							1		1				1	24	82,972
8,799,000	8,799,000	1												1	25	91,771

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Customer Classification Irrigation

Exhibit  
Schedule H-5  
Page 8  
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
8,864,900	8,864,900			1										1	26	100,636
9,614,000	9,614,000										1			1	27	110,250
10,024,000	10,024,000					1								1	28	120,274
10,693,800	10,693,800						1						1	1	29	130,968
11,011,000	11,011,000		1											1	30	141,979
12,514,000	12,514,000												1	1	31	154,493
12,628,000	12,628,000					1								1	32	167,121
13,333,000	13,333,000							1		1				1	33	180,454
14,338,000	14,338,000						1							1	34	194,792
16,341,000	16,341,000			1										1	35	211,133
16,896,600	16,896,600											1		1	36	228,030
18,972,000	18,972,000									1				1	37	247,002
22,823,400	22,823,400										1			1	38	269,825
23,765,000	23,765,000							1				1		1	39	293,590
24,996,900	24,996,900				1									1	40	318,587
25,967,700	25,967,700								1					1	41	344,555
28,317,300	28,317,300									1				1	42	372,872
28,379,000	28,379,000										1		1	1	43	401,251
30,821,900	30,821,900							1						1	44	432,073
31,554,100	31,554,100					1								1	45	463,627
31,959,000	31,959,000											1		1	46	495,586
34,751,300	34,751,300							1						1	47	530,337
38,924,000	38,924,000				1									1	48	569,261
41,176,000	41,176,000										1			1	49	610,437
44,830,000	44,830,000								1					1	50	655,267
53,826,000	53,826,000					1								1	51	709,093
63,974,000	63,974,000						1							1	52	773,067
67,215,000	67,215,000							1						1	53	840,282
														-	53	840,282
														-	53	840,282
Totals		4	3	4	5	5	6	5	5	5	4	3	4	53		
											Average Usage			15,854,381		
											Median Usage			8,864,900		
											Average # Customers			4		
											Change in Number of Customers			-		

Pima Utility Company - Water Division  
Test Year Ended December 31, 2010  
Customer Classification Irrigation - Recovered Effluent

Exhibit  
Schedule H-5  
Page 9  
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
992,100	992,100			1										1	1	992
1,088,300	1,088,300				1									1	2	2,080
1,173,200	1,173,200		1											1	3	3,254
1,226,500	1,226,500										1			1	4	4,480
1,262,200	1,262,200												1	1	5	5,742
1,286,900	1,286,900												1	1	6	7,029
1,386,200	1,386,200	1												1	7	8,415
1,465,400	1,465,400								1					1	8	9,881
1,655,200	1,655,200					1								1	9	11,536
2,656,000	2,656,000									1				1	10	14,192
3,128,100	3,128,100						1							1	11	17,320
4,224,100	4,224,100							1						1	12	21,544
-	-													-	12	21,544
-	-													-	12	21,544
-	-													-	12	21,544
-	-													-	12	21,544
Totals		1	1	1	1	1	1	1	1	1	1	1	1	12		
														Average Usage	1,795,350	
														Median Usage	1,336,550	
														Average # Customers	1	
														Change in Number of Customers	-	



Pima Utility Company

Wastewater Division Schedules

**Schedules A through C,  
E through F, and H**

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Schedule A-1  
Page 1  
Witness: Bourassa

Line  
No.

1	Fair Value Rate Base				\$	9,863,271	
2							
3	Adjusted Operating Income					441,784	
4							
5	Current Rate of Return					4.48%	
6							
7	Required Operating Income				\$	934,052	
8							
9	Required Rate of Return on Fair Value Rate Base					9.47%	
10							
11	Operating Income Deficiency				\$	492,268	
12							
13	Gross Revenue Conversion Factor					1.4041	
14							
15	Increase in Gross Revenue						
16	Requirement				\$	691,210	
17							
18	Adjusted Test Year Revenues				\$	3,096,775	
19	Increase in Gross Revenue Revenue Requirement				\$	691,210	
20	Proposed Revenue Requirement				\$	3,787,985	
21	% Increase					22.32%	
22							
23	<b>Customer</b>		<b>Present</b>	<b>Proposed</b>		<b>Dollar</b>	<b>Percent</b>
24	<b>Classification</b>		<b>Rates</b>	<b>Rates</b>		<b>Increase</b>	<b>Increase</b>
25	<b>(Residential Commercial, Irrigation)</b>						
26	5/8x3/4 Inch Residential	\$	2,658,546	\$	3,250,073	\$	591,527 22.25%
27	1 Inch Residential		145,477		177,846		32,369 22.25%
28							
29	5/8x3/4 Inch Commercial		6,410		7,836		1,426 22.25%
30	3/4 Inch Commercial	\$	1,272	\$	1,555		283 22.25%
31	1 Inch Commercial		16,909		20,671		3,762 22.25%
32	1 1/2 Inch Commercial		12,672		15,491		2,819 22.25%
33	2 Inch Commercial		115,770		141,529		25,759 22.25%
34							
35	Effluent		121,512		149,468		27,956 23.01%
36							
37	Revenue Annualization		13,363		16,141		2,778 20.79%
38							
39	<b>Subtotal</b>	<b>\$</b>	<b>3,091,931</b>	<b>\$</b>	<b>3,780,610</b>	<b>\$</b>	<b>688,679 22.27%</b>
40							
41	Other Water Revenues		6,030		6,030		- 0.00%
42	Reconciling Amount		(1,186)		1,345		2,531 -213.41%
43	Rounding						- 0.00%
44	<b>Total of Water Revenues</b>	<b>\$</b>	<b>3,096,775</b>	<b>\$</b>	<b>3,787,985</b>	<b>\$</b>	<b>691,210 22.32%</b>

46  
47 SUPPORTING SCHEDULES:  
48 B-1  
49 C-1  
50 C-3  
51 H-1

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Summary of Results of Operations

Exhibit  
Schedule A-2  
Page 1  
Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2008	12/31/2009	Actual 12/31/2010	Adjusted 12/31/2010	Present Rates 12/31/2011	Proposed Rates 12/31/2011
1	Gross Revenues	\$ 3,120,792	\$ 3,113,709	\$ 3,091,256	\$ 3,096,775	\$ 3,096,775	\$ 3,787,985
2							
3	Revenue Deductions and	2,152,104	2,194,470	2,158,356	2,654,991	2,654,991	2,853,934
4	Operating Expenses						
5							
6	Operating Income	\$ 968,688	\$ 919,239	\$ 932,900	\$ 441,784	\$ 441,784	\$ 934,051
7							
8	Other Income and	13,984	(817)	(1,490)	(1,490)	(1,490)	(1,490)
9	Deductions						
10							
11	Interest Expense	(550,887)	(520,074)	(487,087)	(220,131)	(220,131)	(220,131)
12							
13	Net Income	\$ 431,785	\$ 398,348	\$ 444,324	\$ 220,163	\$ 220,163	\$ 712,431
14							
15	Earned Per Average						
16	Common Share	2.40	2.21	2.47	1.22	1.22	3.96
17							
18	Dividends Per	-	-	-	-	-	-
19	Common Share						
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	2.96%	2.76%	3.10%	1.47%	1.50%	4.87%
25							
26	Return on Year End						
27	Capital	2.98%	2.77%	3.11%	1.47%	1.54%	4.99%
28							
29	Return on Average						
30	Common Equity	6.95%	6.01%	6.30%	3.17%	2.98%	9.34%
31							
32	Return on Year End						
33	Common Equity	6.72%	5.83%	6.11%	3.12%	2.94%	8.92%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	1.76	1.77	1.92	2.39	2.39	5.49
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	1.76	1.77	1.92	4.23	4.23	4.24
41							
42							
43							
44							
45							
46	<u>SUPPORTING SCHEDULES</u>						
47	C-1						
48	E-2						
49	F-1						
50							



**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Summary of Capital Structure

Exhibit  
Schedule A-3  
Page 1  
Witness: Bourassa

Line No.	Description:	Prior Years Ended 12/31/2008	Prior Years Ended 12/31/2009	Test Year 12/31/2010	Projected Year 12/31/2011
1					
2					
3	Short-Term Debt	-	-	-	-
4	Long-Term Debt	7,035,000	6,595,000	3,186,181 <sup>1</sup>	4,354,013 <sup>1</sup>
5					
6	Total Debt	\$ 7,035,000	\$ 6,595,000	\$ 3,186,181	\$ 4,354,013
7					
8					
9	Preferred Stock	-	-	-	-
10					
11	Common Equity	6,429,704	6,828,052	7,272,375	7,492,538
12					
13					
14	Total Capital & Debt	\$ 13,464,704	\$ 13,423,052	\$ 10,458,556	\$ 11,846,552
15					
16					
17	Capitalization Ratios:				
18					
19	Long-Term Debt	52.25%	49.13%	30.46%	36.75%
20					
21	Total Debt	52.25%	49.13%	30.46%	36.75%
22					
23					
24	Preferred Stock	-	-	-	-
25					
26	Common Equity	47.75%	50.87%	69.54%	63.25%
27					
28					
29	Total Capital	100.00%	100.00%	100.00%	100.00%
30					
31					
32	Weighted Cost of				
33	Senior Capital	3.75%	3.53%	2.34%	2.64%
34					
35					
36					
37	<sup>1</sup> Allocated portion of long-term debt based upon consolidated capital structure				
38	and proposed rate base.				
39					
40					
41					
42					
43					
44					
45	<u>SUPPORTING SCHEDULES:</u>				
46	E-1				
47	D-1				
48					
49					
50					

**Pima Utility Company**  
Test Year Ended December 31, 2010  
Summary of Consolidated Capital Structure

Exhibit  
Schedule A-3  
Page 2  
Witness: Bourassa

Line No.	Description:	Prior Years Ended		Test Year	Projected Year
		12/31/2008	12/31/2009	12/31/2010	12/31/2011
1					
2					
3	Short-Term Debt	-	-	-	-
4	Long-Term Debt	7,035,000	6,595,000	6,125,000	8,370,000
5					
6	Total Debt	\$ 7,035,000	\$ 6,595,000	\$ 6,125,000	\$ 8,370,000
7					
8					
9	Preferred Stock	-	-	-	-
10					
11	Common Equity	21,199,018	18,857,187	19,432,404	18,539,615
12					
13					
14	Total Capital & Debt	\$ 28,234,018	\$ 25,452,187	\$ 25,557,404	\$ 26,909,615
15					
16					
17	Capitalization Ratios:				
18					
19	Long-Term Debt	24.92%	25.91%	23.97%	31.10%
20					
21	Total Debt	24.92%	25.91%	23.97%	31.10%
22					
23					
24	Preferred Stock	-	-	-	-
25					
26	Common Equity	75.08%	74.09%	76.03%	68.90%
27					
28					
29	Total Capital	100.00%	100.00%	100.00%	100.00%
30					
31					
32	Weighted Cost of				
33	Senior Capital	1.92%	1.99%	1.84%	2.23%
34					
35					
36					
37					
38					
39					
40					
41					
42					
43					
44					
45	<u>SUPPORTING SCHEDULES:</u>				
46	E-1				
47	D-1				
48					
49					
50					

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Construction Expenditures  
and Gross Utility Plant in Service

Exhibit  
Schedule A-4  
Page 1  
Witness: Bourassa

<u>Line No.</u>		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
2				
3				
4	Prior Year Ended 12/31/2008	234,673	234,673	20,012,385
5				
6	Prior Year Ended 12/31/2009	226,550	323,568	20,335,953
7				
8	Test Year Ended 12/31/2010	248,075	227,885	20,563,838
9				
10	Projected Year Ended 12/31/2011	315,000	315,000	20,878,838
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34	<u>SUPPORTING SCHEDULES:</u>			
35	B-2			
36	E-5			
37	F-3			
38				
39				
40				

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Summary Statements of Cash Flows

Exhibit  
Schedule A-5  
Page 1  
Witness: Bourassa

Line No.		Prior Year Ended 12/31/2008	Prior Year Ended 12/31/2009	Test Year Ended 12/31/2010	Projected Year Present Rates 12/31/2011	Projected Year Proposed Rates 12/31/2011
5	Cash Flows from Operating Activities					
6	Net Income	\$ 431,785	\$ 398,348	\$ 444,324	\$ 220,163	\$ 712,431
7	Adjustments to reconcile net income to net cash					
8	provided by operating activities:					
9	Depreciation and Amortization	770,492	757,553	702,524	1,010,700	1,010,700
10	Other -Adjustments	(22,963)	-	-		
11	Changes in Certain Assets and Liabilities:					
12	Accounts Receivable	4,835	(1,527)	(9,241)		
13	Unbilled Revenues	-	-	-		
14	Materials and Supplies Inventory	-	-	-		
15	Prepaid Expenses	-	-	-		
16	Deferred Charges	14,994	250,224	(1,467,236)		
17	Notes Receivable	(705,592)	(761,943)	1,115,641		
18	Accounts Payable	(4,610)	49,899	(27,566)		
19	Intercompany payable	-	-	-		
20	Customer Meter Deposits	(14,862)	(15,951)	(17,038)		
21	Taxes Payable	(6,940)	3,025	3,156		
22	Other assets and liabilities	(407)	1,293	(39,374)		
23	Net Cash Flow provided by Operating Activities	\$ 466,731	\$ 680,920	\$ 705,191	\$ 1,230,863	\$ 1,723,131
24	Cash Flow From Investing Activities:					
25	Capital Expenditures	(234,673)	(226,550)	(248,075)	(315,000)	(315,000)
26	Plant Held for Future Use	-	-	-		
27	Changes in debt reserve fund	151,955	4,638	-		
28	Net Cash Flows from Investing Activities	\$ (82,718)	\$ (221,912)	\$ (248,075)	\$ (315,000)	\$ (315,000)
29	Cash Flow From Financing Activities					
30	Change in Restricted Cash	-	-	-		
31	Proceeds from Long-Term Debt	-	-	-		
32	Net receipt of contributions in aid of construction	-	-	-		
33	Net receipts of advances in aid of construction	-	(44,995)	(13,104)	(13,104)	(13,104)
34	Repayments of Long-Term Debt	(410,000)	(440,000)	(470,000)	(912,938)	(912,938)
35	Distributions/Dividends Paid	-	-	-		
36	Deferred Financing Costs	25,987	25,987	25,988		
37	Paid in Capital	-	-	-		
38	Net Cash Flows Provided by Financing Activities	\$ (384,013)	\$ (459,008)	\$ (457,116)	\$ (926,042)	\$ (926,042)
39	Increase(decrease) in Cash and Cash Equivalents	0	0	(0)	(10,179)	482,089
40	Cash and Cash Equivalents at Beginning of Year	-	0	0	0	0
41	Cash and Cash Equivalents at End of Year	\$ 0	\$ 0	\$ 0	\$ (10,179)	\$ 482,089

46 SUPPORTING SCHEDULES:

47 E-3

48 F-2

49

50

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Summary of Rate Base

Exhibit  
Schedule B-1  
Page 1  
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 22,055,018	\$ 22,055,018
3	Less: Accumulated Depreciation	11,546,833	11,546,833
4			
5	Net Utility Plant in Service	\$ 10,508,186	\$ 10,508,186
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	285,313	285,313
9			
10	Contributions in Aid of Construction	937,694	937,694
11			
12	Accumulated Amortization of CIAC	(578,092)	(578,092)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16			
17			
18			
19	<u>Plus:</u>		
20			
21			
22	Prepayments	-	-
23	Materials and Supplies	-	-
24	Allowance for Cash Working Capital	-	-
25			
26	Total Rate Base	\$ 9,863,271	\$ 9,863,271
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Schedule B-2  
Page 1  
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustment	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 20,563,838	1,491,180	\$ 22,055,018
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	10,641,699	905,133	11,546,833
7				
8				
9	Net Utility Plant			
10	in Service	\$ 9,922,139		\$ 10,508,186
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	285,313	-	285,313
15				
16	Contributions in Aid of			
17	Construction - Gross	937,694	(0)	937,694
18				
19	Accumulated Amortization of CIAC	(756,631)	178,539	(578,092)
20				
21	Customer Meter Deposits	-		-
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	<b>Plus:</b>			
27				
28				
29	Prepayments	-		-
30	Materials and Supplies	-		-
31	Allowance for Cash Working Capital	-	-	-
32				-
33				
34	<b>Total</b>	<u>\$ 9,455,764</u>		<u>\$ 9,863,271</u>

SUPPORTING SCHEDULES:

B-2, pages 2

E-1

RECAP SCHEDULES:

B-1

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Schedule B-2  
Page 2  
Witness: Bourassa

Line No.		Actual at End of Test Year	1 Plant-in- Service	Proforma Adjustments			Adjusted at end of Test Year
				2 Accumulated Depreciation	3 CIAC	4 Intentionally Left Blank	
1	Gross Utility						
2	Plant in Service	\$ 20,563,838	1,491,180				\$ 22,055,018
3							
4	Less:						
5	Accumulated						
6	Depreciation	10,641,699		905,133			11,546,833
7							
8							
9	Net Utility Plant						
10	in Service	\$ 9,922,139	\$ 1,491,180	\$ (905,133)	\$ -	\$ -	\$ 10,508,186
11							
12	Less:						
13	Advances in Aid of						
14	Construction	285,313					285,313
15							
16	Contributions in Aid of						
17	Construction (CIAC)	937,694			(0)		937,694
18							
19	Accumulated Amort of CIAC	(756,631)			178,539		(578,092)
20							
21	Customer Meter Deposits	-					-
22	Accumulated Deferred Income Taxes	-			-		-
23							
24							
25	Plus:						
26							
27							
28	Prepayments	-					-
29	Materials and Supplies	-					-
30	Allowance for Cash Working Capital	-					-
31							
32	Total	\$ 9,455,764	\$ 1,491,180	\$ (905,133)	\$ (178,539)	\$ -	\$ 9,863,271

SUPPORTING SCHEDULES  
B-2, pages 3-5  
E-1

RECAP SCHEDULES  
B-1

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1

Exhibit  
Schedule B-2  
Page 3  
Witness: Bourassa

Plant-in-Service							
Line No.		A	B	Adjustments C	D	E	
		Actual Original Cost	Reclassified Plant to Water Division	Reclassified Plant from Sewer Division	Retirement Adjustments	Plant Reclassification	Intentionally Left Blank
	Adjusted Original Cost						
351	Organization Cost	\$ -	\$ -	\$ -	\$ -	\$ -	-
352	Franchise Cost	-	-	-	-	-	-
353	Land and Land Rights	92,008	-	-	(480)	-	91,528
354	Structures & Improvements	8,901	-	244,313	(3,055)	274	250,433
355	Power Generation Equipment	-	-	-	-	-	-
360	Collection Sewers - Force	1,589,008	-	-	-	(1,491,485)	97,523
361.1	Collection Sewers - Gravity	5,993,014	(9,148)	-	-	(2,129,354)	3,854,512
361.2	Manholes & Cleanouts	-	-	-	-	1,791,722	1,791,722
362	Special Collecting Structures	-	-	-	-	-	-
363	Services to Customers	628,785	-	-	-	3,464	632,249
364	Flow Measuring Devices	-	-	-	-	-	-
365	Flow Measuring Installations	-	-	-	-	-	-
366	Reuse Services	-	-	-	-	-	-
367	Reuse Meters and Meter Installations	-	-	-	-	-	-
370	Receiving Wells	-	-	-	-	226,251	226,251
371.1	Pumping Equipment - Lift Stations	-	-	29,120	(325,364)	1,840,391	1,544,146
371.2	Other Pumping Equipment	-	-	-	(95,534)	198,975	103,441
371.3	Pumping Equipment - Recharge Wells	-	-	1,561,875	(125,675)	-	1,436,200
374	Reuse Distribution Reservoirs	-	-	-	-	-	-
375	Reuse Transmission and Distribution	-	-	11,106	-	126,338	137,444
380	Treatment & Disposal Equipment	10,655,743	-	713	(647,917)	(124,468)	9,884,071
381	Plant Sewers	-	-	-	-	-	-
382	Outfall Sewer Lines	538,439	-	-	-	(538,439)	-
389	Other Plant & Misc Equipment	341,218	-	972,509	-	(341,218)	972,509
390	Office Furniture & Equipment	-	-	-	(2,813)	9,342	6,529
390.1	Computers & Software	-	-	-	(5,563)	16,447	10,884
391	Transportation Equipment	-	-	-	(3,170)	25,000	21,830
392	Stores Equipment	-	-	-	-	-	-
393	Tools, Shop & Garage Equipment	-	(6,255)	1,423	(60,612)	221,643	156,200
394	Laboratory Equipment	-	-	-	-	1,993	1,993
395	Power Operated Equipment	-	-	-	(1,711)	1,711	0
396	Communication Equipment	-	-	-	(42,582)	161,410	118,828
397	Miscellaneous Equipment	-	-	-	-	-	-
398	Other Tangible Plant	-	-	-	-	-	-
	Post-in-service AFUDC	716,722	-	-	-	-	716,722
	TOTALS	\$ 20,563,838	\$ (15,403)	\$ 2,821,059	\$ (1,314,477)	\$ 0	\$ 22,055,018
	Plant-in-Service per Books						\$ 20,563,838
	Increase (decrease) in Plant-in-Service						\$ 1,491,180
	Adjustment to Plant-in-Service						\$ 1,491,180
	SUPPORTING SCHEDULES						
	Workpapers/B-2 Schedule - Pima Sewer.xlsx						
	B-2, pages 3.1 to 3.18						



Pima Utility Company - Sewer Division  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.1  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	Per Decision No. 62184 - January 5, 2000						Current Books		Allocate A/O
					Company Plant at 12/31/1997	Company Pro Forma Adjust	Adopted Staff Adjust	Adopted RUCO Adjust	Order Plant at 12/31/1997	Accum. Deprec. At 12/31/1997	G/L Plant at 12/31/1997	NARUC Plant at 12/31/1997	
1	351	Organization Cost	0.00%	0.00%					-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%					-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	76,709				76,709		76,709	76,709	-
4	354	Structures & Improvements	3.00%	3.33%	4,326	(4,326)			-	-	-	-	-
5	355	Power Generation Equipment	3.00%	5.00%					-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%					-	-	-	-	-
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	2,559,281	149,529	(149,529)		2,559,281		2,559,281	2,559,281	267,514
8	361.2	Manholes & Cleanouts	3.00%	2.00%	1,118,725				1,118,725		1,118,725	1,118,725	116,937
9	362	Special Collecting Structures	3.00%	2.00%					-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%			149,529		149,529		149,529	149,529	15,630
11	364	Flow Measuring Devices	3.00%	10.00%					-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%					-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%					-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%					-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%				226,251	226,251			226,251	23,649
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	765,619		1,017		766,636		766,637	766,637	80,134
17	371.2	Other Pumping Equipment	3.00%	10.00%				100,000	100,000		-	100,000	10,453
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%					-	-	-	-	-
19	374	Reuse Distribution Reservoirs	3.00%	2.50%					-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	343,041			(326,251)	16,790		343,041	16,790	1,755
21	380	Treatment & Disposal Equipment	3.00%	5.00%	8,545,663	2,135			8,547,798		8,547,798	8,547,798	893,476
22	381	Plant Sewers	3.00%	5.00%					-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%					-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%					-	-	-	-	-
25	390	Office Furniture & Equipment	3.00%	6.67%					-	-	-	-	-
26	390.1	Computers & Software	3.00%	20.00%					-	-	-	-	-
27	391	Transportation Equipment	3.00%	20.00%				3,261	3,261		-	3,260	341
28	392	Stores Equipment	3.00%	4.00%					-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	189,765		(5,612)	(3,261)	180,892		184,153	180,893	18,908
30	394	Laboratory Equipment	3.00%	10.00%					-	-	-	-	-
31	395	Power Operated Equipment	3.00%	5.00%					-	-	-	-	-
32	396	Communication Equipment	3.00%	10.00%					-	-	-	-	-
33	397	Miscellaneous Equipment	3.00%	10.00%					-	-	-	-	-
34	398	Other Tangible Plant	3.00%						-	-	-	-	-
35													
36		Sub Total			13,603,129	147,338	(4,595)	-	13,745,872	1,428,798	13,745,873	13,745,873	1,428,798
37													
38		Post-In Service AFUDC		4.52%	1,865,546		(1,148,824)	-	716,722	-	716,722	716,722	-
39													
40		TOTAL			15,468,675	147,338	(1,153,419)	-	14,462,594	1,428,798	14,462,595	14,462,595	1,428,798

Depreciable Plant  
Composite Depreciation Rate

<sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff recommended depreciation rates.

Sewer Plant Recorded on Water Books - Not Included in Decision 62184														
1994														
Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance De	Accum. prec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
8	361.2	Manholes & Cleanouts	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	-	-	-
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	9,140	-	9,140	-	-	-	-	137	9,140	137
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	650	-	650	-	-	-	-	10	650	10
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	1,057	-	1,057	-	-	-	-	16	1,057	16
21	380	Treatment & Disposal Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	-	-	-
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	-	-	-
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	-	-	-
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	-	-	-
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
32	396	Communication Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%		-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			10,847	-	10,847	-	-	-	-	163	10,847	163
37														
38		Post-In Service AFUDC		4.52%										
39														
40		TOTAL			10,847	-	10,847	-	-	-	-	163	10,847	163

41 Depreciable Plant  
42 Composite Depreciation Rate

43  
44  
45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff  
46

Sewer Plant Recorded on Water Books - Not Included in Decision 62184														
1895														
Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance De	Accum. Deprec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
8	361.2	Manholes & Cleanouts	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	-	-	-
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	13,367	-	13,367	-	-	-	-	475	22,507	612
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	2,758	-	2,758	-	-	-	-	61	3,407	71
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	-	32	1,057	48
21	380	Treatment & Disposal Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	-	-	-
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	-	-	-
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	-	-	-
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	-	-	-
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
32	396	Communication Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%		-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			16,125	-	16,125	-	-	-	-	567	26,971	730
37														
38		Post-In Service AFUDC		4.52%										
39														
40		TOTAL			16,125	-	16,125	-	-	-	-	567	26,971	730

41 Depreciable Plant

42 Composite Depreciation Rate

43  
44 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff

45  
46

Sewer Plant Recorded on Water Books - Not Included in Decision 62184														
1996														
Line No.	NARUC Account No.	Description	Deprec. Before Jan '00	Allowed Deprec. Rate <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant BalanceDe	Accum. prec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
8	361.2	Manholes & Cleanouts	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	-	-	-
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	-	-	-	-	-	-	-	675	22,507	1,287
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	7,258	-	7,258	-	-	-	-	211	10,665	282
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	2,203	-	2,203	-	-	-	-	65	3,260	112
21	380	Treatment & Disposal Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	-	-	-
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	-	-	-
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	-	-	-
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	-	-	-
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	1,423	-	1,423	-	-	-	-	21	1,423	21
30	384	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
32	396	Communication Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%		-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			10,884	-	10,884	-	-	-	-	972	37,856	1,702
37														
38		Post-In Service AFUDC		4.52%										
39														
40		TOTAL			10,884	-	10,884	-	-	-	-	972	37,856	1,702

41  
42 Depreciable Plant  
43 Composite Depreciation Rate  
44  
45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff  
46

Sewer Plant Recorded on Water Books - Not Included in Decision 62184														
1987														
Line	NARUC		Deprec.	Allowed	Plant	Plant	Adjusted	Plant	Adjusted	Salvage	Depreciation	Plant	Accum.	
No.	Account		Before	Rate <sup>1</sup>	Additions	Adjustments	Plant	Retirements	Plant	A/D Only	(Calculated)	BalanceDe	prec.	
	No.	Description	Jan. '00		(Per Books)		Additions	Adjustments	Retirements					
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	-	
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	-	-	
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	-	-	
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	-	-	-	-	-	
8	361.2	Manholes & Cleanouts	3.00%	2.00%	-	-	-	-	-	-	-	-	-	
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-	-	-	
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	-	-	
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	-	-	-	-	-	-	675	22,507	1,962	
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	-	-	-	-	-	-	320	10,665	602	
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	98	3,260	210	
21	380	Treatment & Disposal Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	-	-	
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	-	-	
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	-	-	
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	-	-	
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	-	-	-	-	-	-	43	1,423	64	
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	
32	396	Communication Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	
34	398	Other Tangible Plant	3.00%		-	-	-	-	-	-	-	-	-	
35														
36		Sub Total			-	-	-	-	-	-	1,136	37,856	2,838	
37														
38		Post-In Service AFUDC		4.52%										
39														
40		TOTAL			-	-	-	-	-	-	1,136	37,856	2,838	

41  
42 Depreciable Plant  
43 Composite Depreciation Rate  
44  
45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff  
46

Pima Utility Company - Sewer Division  
Plant Additions and Retirements

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Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	1998							Depreciation (Calculated)	Plant Balance De	Accum. prec.
					Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only			
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	480	480	-	-	76,229	-
4	354	Structures & Improvements	3.00%	3.33%	202,986	-	202,986	-	-	-	-	3,045	202,986	3,045
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	28,319	-	28,319	-	-	-	-	425	28,319	425
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	24,402	(9,148)	15,254	-	-	-	-	77,007	2,574,535	344,521
8	361.2	Manholes & Cleanouts	3.00%	2.00%	21,257	-	21,257	-	-	-	-	33,881	1,139,962	150,818
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-	4,486	149,529	20,116
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	6,788	226,251	30,437
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	432,170	-	432,170	-	63,740	63,740	-	29,201	1,157,574	47,557
17	371.2	Other Pumping Equipment	3.00%	10.00%	54,700	-	54,700	-	65,250	65,250	-	2,842	89,450	(51,955)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	838,888	-	838,888	-	-	-	-	12,903	849,553	13,505
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	104,135	-	104,135	-	-	-	-	2,164	124,185	4,129
21	380	Treatment & Disposal Equipment	3.00%	5.00%	606,887	-	606,887	-	-	-	-	265,537	9,154,685	1,159,013
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	500,000	-	500,000	-	-	-	-	7,500	500,000	7,500
25	390	Office Furniture & Equipment	3.00%	6.67%	1,870	-	1,870	-	-	-	-	28	1,870	28
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	-	-	-
27	391	Transportation Equipment	3.00%	20.00%	584	-	584	-	-	-	-	107	3,844	448
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	2,860	-	2,860	-	47,661	47,661	-	4,797	137,515	(23,891)
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	395	Power Operated Equipment	3.00%	5.00%	1,068	-	1,068	-	-	-	-	16	1,068	16
32	396	Communication Equipment	3.00%	10.00%	36,607	-	36,607	-	-	-	-	549	36,607	549
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			2,856,732	(9,148)	2,847,584	-	177,131	177,131	-	451,275	16,454,162	1,706,259
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	32,396
39														
40		TOTAL			2,856,732	(9,148)	2,847,584	-	177,131	177,131	-	483,670	17,170,904	1,738,655

41  
42 Depreciable Plant 16,377,953  
43 Composite Depreciation Rate 2.9532%  
44  
45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff  
46

Pima Utility Company - Sewer Division  
Plant Additions and Retirements

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			1999											
Line No.	NARUC Account No.	Description	Deprec. Before Jan '00	Allowed Deprec. Rate <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance De	Accum. Deprec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	76,229	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	6,090	202,966	9,134
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	850	28,319	1,274
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	400,340	-	400,340	-	-	-	-	83,241	2,974,876	427,762
8	361.2	Manholes & Cleanouts	3.00%	2.00%	129,190	-	129,190	-	-	-	-	36,137	1,269,172	186,955
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	213,312	-	213,312	-	-	-	-	7,686	362,841	27,801
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	6,788	226,251	37,224
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	54,090	-	54,090	-	14,000	14,000	-	35,329	1,197,664	68,886
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	-	-	-	-	2,684	89,450	(49,272)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	82,615	-	82,615	-	2,406	2,406	-	26,690	929,761	37,789
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	-	3,726	124,185	7,854
21	380	Treatment & Disposal Equipment	3.00%	5.00%	73,913	-	73,913	-	17,618	17,618	-	275,485	9,210,980	1,416,880
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	15,000	500,000	22,500
25	390	Office Furniture & Equipment	3.00%	6.67%	745	-	745	-	-	-	-	67	2,615	95
26	390.1	Computers & Software	3.00%	20.00%	1,512	-	1,512	-	-	-	-	23	1,512	23
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	115	3,844	563
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	1,363	-	1,363	-	-	-	-	4,146	138,878	(19,746)
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	32	1,068	48
32	396	Communication Equipment	3.00%	10.00%	13,860	-	13,860	-	-	-	-	1,306	50,467	1,855
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			970,940	-	970,940	-	34,024	34,024	-	505,392	17,391,098	2,177,627
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	64,792
39														
40		TOTAL			970,940	-	970,940	-	34,024	34,024	-	537,788	18,107,820	2,242,419

41 Depreciable Plant

17,314,869

42 Composite Depreciation Rate

3.1059%

43  
44  
45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff

46

NARUC Account			Deprec. Before Jan '00	Allowed Deprec. Rate <sup>1</sup>	2000									
Line No.	Account No.	Description			Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Reirements	Salvage A/O Only	Deprecition (Calculated)	Plant BalanceDe	Accum. prec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	76,229	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	6,759	202,986	15,894
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	566	28,319	1,841
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	-	-	-	59,498	2,974,876	487,260
8	361.2	Manholes & Cleanouts	3.00%	2.00%	-	-	-	-	-	-	-	25,363	1,269,172	212,338
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	515	-	515	-	-	-	-	7,262	363,356	35,063
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	226,251	45,301
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	101,860	-	101,860	-	8,564	8,564	-	124,431	1,290,960	184,753
17	371.2	Other Pumping Equipment	3.00%	10.00%	6,592	-	6,592	-	-	-	-	9,275	96,042	(39,997)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	20,717	-	20,717	-	7,216	7,216	-	93,651	943,262	124,224
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	-	2,484	124,185	10,338
21	380	Treatment & Disposal Equipment	3.00%	5.00%	139,747	-	139,747	-	25,869	25,869	-	463,396	9,324,858	1,854,407
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	33,350	500,000	56,850
25	390	Office Furniture & Equipment	3.00%	6.67%	3,752	-	3,752	-	-	-	-	300	6,367	395
26	390.1	Computers & Software	3.00%	20.00%	2,360	-	2,360	-	-	-	-	538	3,872	561
27	391	Transportation Equipment	3.00%	20.00%	21,500	-	21,500	-	-	-	-	2,919	25,344	3,482
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	1,725	-	1,725	1,236	149	1,385	-	13,905	139,218	(7,225)
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	395	Power Operated Equipment	3.00%	5.00%	643	-	643	-	-	-	-	69	1,711	118
32	396	Communication Equipment	3.00%	10.00%	15,319	-	15,319	-	1,917	1,917	-	5,717	63,869	5,655
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%		-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			314,731	-	314,731	1,236	43,715	44,951	-	857,580	17,660,878	2,990,257
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	97,188
39														
40		TOTAL			314,731	-	314,731	1,236	43,715	44,951	-	889,976	18,377,600	3,087,444

Depreciable Plant 17,584,649  
Composite Depreciation Rate 5.0611%

<sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff



NARUC		Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	2001										Plant Balance De	Accum. prec.
Line No.	Account No. Description			Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)				
1	351 Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
2	352 Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	353 Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	-	76,229	-	-
4	354 Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	6,759	202,986	22,653	-	-
5	355 Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
6	360 Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	566	26,319	2,407	-	-
7	361.1 Collection Sewers - Gravity	3.00%	2.00%	1,355	-	1,355	-	-	-	-	59,511	2,976,231	546,771	-	-
8	361.2 Manholes & Cleanouts	3.00%	2.00%	-	-	-	-	-	-	-	25,383	1,269,172	237,722	-	-
9	362 Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	363 Services to Customers	3.00%	2.00%	1,640	-	1,640	-	-	-	-	7,284	364,996	42,347	-	-
11	364 Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
12	365 Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
13	366 Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
14	367 Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-	-	-
15	370 Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	226,251	53,378	-	-
16	371.1 Pumping Equipment - Lift Stations	3.00%	10.00%	11,409	-	11,409	-	5,303	5,303	-	129,401	1,297,066	308,851	-	-
17	371.2 Other Pumping Equipment	3.00%	10.00%	11,207	-	11,207	-	495	495	-	10,140	106,754	(30,352)	-	-
18	371.3 Pumping Equipment - Recharge Wells	3.00%	10.00%	47,141	-	47,141	-	6,651	6,651	-	96,351	983,752	213,924	-	-
19	374 Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
20	375 Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	-	2,484	124,185	12,822	-	-
21	380 Treatment & Disposal Equipment	3.00%	5.00%	66,653	-	66,653	-	15,672	15,672	-	467,517	9,375,839	2,306,253	-	-
22	381 Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
23	382 Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
24	389 Other Plant & Misc Equipment	3.00%	6.67%	5,438	-	5,438	-	-	-	-	33,531	505,438	89,381	-	-
25	390 Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	425	6,367	820	-	-
26	390.1 Computers & Software	3.00%	20.00%	1,691	-	1,691	-	-	-	-	944	5,564	1,505	-	-
27	391 Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	5,069	25,344	8,550	-	-
28	392 Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-	-
29	393 Tools, Shop & Garage Equipment	3.00%	10.00%	9,757	-	9,757	-	-	-	-	14,410	148,975	7,184	-	-
30	394 Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
31	395 Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	86	1,711	203	-	-
32	396 Communication Equipment	3.00%	10.00%	9,560	-	9,560	-	680	680	-	6,831	72,749	11,806	-	-
33	397 Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
34	398 Other Tangible Plant	3.00%		-	-	-	-	-	-	-	-	-	-	-	-
35															
36	Sub Total			165,851	-	165,851	-	28,801	28,801	-	674,769	17,787,928	3,836,224	-	-
37															
38	Post-In Service AFUDC		4.52%								32,396	716,722	129,583	-	-
39															
40	TOTAL			165,851	-	165,851	-	28,801	28,801	-	907,164	18,514,650	3,965,808	-	-

41 Depreciable Plant 17,721,699

42 Composite Depreciation Rate 5.1189%

43

44

45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff

46

Pima Utility Company - Sewer Division  
Plant Additions and Retirements

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			2002											
Line	NARUC Account		Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecition (Calculated)	Plant BalanceDe	Accum. prac.
No.	No.	Description												
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	76,229	-
4	354	Structures & Improvements	3.00%	3.33%	1,351	-	1,351	-	-	-	-	6,782	204,337	29,435
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	566	28,319	2,973
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	230,146	-	230,146	-	-	-	-	61,826	3,206,377	606,597
8	361.2	Manholes & Cleanouts	3.00%	2.00%	134,175	-	134,175	-	-	-	-	26,725	1,403,347	264,447
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	106,678	-	106,678	-	-	-	-	8,367	471,674	50,714
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	226,251	61,456
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	11,844	-	11,844	-	1,681	1,681	-	130,215	1,307,229	437,385
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	-	-	-	-	10,675	106,754	(19,677)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	16,178	-	16,178	-	8,760	8,760	-	98,746	991,170	303,910
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	-	2,484	124,185	15,305
21	380	Treatment & Disposal Equipment	3.00%	5.00%	84,553	-	84,553	-	19,766	19,766	-	470,412	9,440,626	2,756,899
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	267,579	-	267,579	-	-	-	-	43,303	793,016	132,685
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	425	6,367	1,244
26	390.1	Computers & Software	3.00%	20.00%	1,728	-	1,728	-	-	-	-	1,286	7,292	2,790
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	5,069	25,344	13,619
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	5,634	-	5,634	-	2,853	2,853	-	15,037	151,756	19,368
30	394	Laboratory Equipment	3.00%	10.00%	1,993	-	1,993	-	-	-	-	100	1,993	100
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	86	1,711	289
32	396	Communication Equipment	3.00%	10.00%	1,592	-	1,592	-	3,919	3,919	-	7,159	70,422	15,046
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			883,450	-	883,450	-	36,979	36,979	-	897,338	16,644,400	4,696,583
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	161,979
39														
40		TOTAL			883,450	-	883,450	-	36,979	36,979	-	929,734	19,361,122	4,858,563

Depreciable Plant

18,568,170

Composite Depreciation Rate

5.0071%

<sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff

Pima Utility Company - Sewer Division  
Plant Additions and Retirements

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Line No.	NARUC Account No.	Description	Deprec. Before Jan '00	Allowed Deprec. Rate <sup>1</sup>	2003								Plant Balance De	Accum. prec.
					Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)		
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	76,229	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	3,055	3,055	-	6,754	201,282	33,134
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	566	28,319	3,540
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	378,861	-	378,861	-	-	-	-	67,916	3,585,238	676,513
8	361.2	Manholes & Cleanouts	3.00%	2.00%	156,785	-	156,785	-	-	-	-	29,635	1,560,132	294,082
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	89,529	-	89,529	-	-	-	-	10,329	561,202	61,042
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	226,251	69,533
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	35,524	-	35,524	-	20,117	20,117	-	131,493	1,322,636	548,761
17	371.2	Other Pumping Equipment	3.00%	10.00%	4,853	-	4,853	-	-	-	-	10,918	111,608	(8,759)
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	34,368	-	34,368	-	13,353	13,353	-	100,168	1,012,185	390,724
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	2,702	-	2,702	-	-	-	-	2,511	126,887	17,816
21	380	Treatment & Disposal Equipment	3.00%	5.00%	78,286	-	78,286	-	16,849	16,849	-	473,567	9,502,063	3,213,616
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	52,894	793,016	185,579
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	425	6,367	1,969
26	390.1	Computers & Software	3.00%	20.00%	4,307	-	4,307	-	3,872	3,872	-	1,502	7,727	420
27	391	Transportation Equipment	3.00%	20.00%	13,747	-	13,747	-	-	-	-	6,444	39,091	20,063
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	9,638	(6,255)	3,384	-	113	113	-	15,339	155,027	34,594
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	198	1,993	299
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	86	1,711	374
32	396	Communication Equipment	3.00%	10.00%	31,795	-	31,795	-	10,731	10,731	-	8,095	91,487	12,410
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			840,395	(6,255)	834,140	-	68,091	68,091	-	926,917	19,410,449	5,555,410
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	194,375
39														
40		TOTAL			840,395	(6,255)	834,140	-	68,091	68,091	-	959,313	20,127,171	5,749,785

41  
42 Depreciable Plant 19,334,220  
43 Composite Depreciation Rate 4.9617%  
44  
45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff  
46

Pima Utility Company - Sewer Division  
Plant Additions and Retirements

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			2004											
Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecition (Calculated)	Plant BalanceDe	Accum. prec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	15,299	-	15,299	-	-	-	-	-	91,528	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	6,703	201,282	39,836
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	566	28,319	4,106
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	10,421	-	10,421	-	-	-	-	71,809	3,595,659	748,322
8	361.2	Manholes & Cleanouts	3.00%	2.00%	6,766	-	6,766	-	-	-	-	31,270	1,566,898	325,352
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	3,435	-	3,435	-	-	-	-	11,258	564,637	72,301
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	226,251	77,610
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	76,413	-	76,413	-	28,063	28,063	-	134,681	1,370,986	655,379
17	371.2	Other Pumping Equipment	3.00%	10.00%	1,251	-	1,251	-	-	-	-	11,223	112,859	2,465
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	24,716	-	24,716	-	9,721	9,721	-	101,968	1,027,180	482,972
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	-	2,538	126,887	20,354
21	380	Treatment & Disposal Equipment	3.00%	5.00%	379,961	-	379,961	-	118,948	118,948	-	481,626	9,783,076	3,576,297
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	52,894	793,016	238,473
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	425	6,367	2,094
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	1,545	7,727	1,866
27	391	Transportation Equipment	3.00%	20.00%	1,909	-	1,909	-	1,261	1,261	-	7,883	39,739	26,685
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	1,585	-	1,585	-	1,000	1,000	-	15,532	155,611	49,126
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	199	1,993	498
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	86	1,711	480
32	396	Communication Equipment	3.00%	10.00%	25,038	-	25,038	-	2,052	2,052	-	10,298	114,473	20,656
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			546,795	-	546,795	-	161,045	161,045	-	950,585	19,796,199	6,344,950
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	226,771
39														
40		TOTAL			546,795	-	546,795	-	161,045	161,045	-	982,981	20,512,921	6,571,721

41 Depreciable Plant 19,704,671  
 42 Composite Depreciation Rate 4.9886%  
 43  
 44  
 45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff.  
 46

Pima Utility Company - Sewer Division  
Plant Additions and Retirements

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NARUC Account			Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	2005									
Line No.	No.	Description			Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/P Only	Depreciation (Calculated)	Plant BalanceDe	Accum. prec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	91,528	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	6,703	201,282	46,539
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	89,204	-	89,204	-	-	-	-	1,258	97,523	5,365
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	225,293	-	225,293	-	-	-	-	74,166	3,820,952	822,488
8	361.2	Manholes & Cleanouts	3.00%	2.00%	132,296	-	132,296	-	-	-	-	32,661	1,899,194	358,013
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customer	3.00%	2.00%	50,514	-	50,514	-	-	-	-	11,798	615,152	84,099
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	226,251	65,687
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	75,225	-	75,225	64,361	30,922	95,283	-	136,096	1,350,928	696,192
17	371.2	Other Pumping Equipment	3.00%	10.00%	3,343	-	3,343	-	-	-	-	11,453	116,201	13,918
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	71,431	-	71,431	-	15,449	15,449	-	105,517	1,083,163	573,040
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	-	2,538	126,887	22,892
21	380	Treatment & Disposal Equipment	3.00%	5.00%	427,259	-	427,259	331,845	260,594	592,440	-	484,024	9,597,895	3,467,881
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	52,894	793,016	291,367
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	2,813	2,813	-	331	3,554	(389)
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	1,691	1,691	-	1,376	6,036	1,651
27	391	Transportation Equipment	3.00%	20.00%	5,500	-	5,500	-	-	-	-	8,498	45,239	35,183
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	8,313	-	8,313	-	2,885	2,885	-	15,833	161,039	62,073
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	199	1,993	697
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	86	1,711	545
32	396	Communication Equipment	3.00%	10.00%	5,986	-	5,986	-	3,150	3,150	-	11,589	117,309	29,095
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			1,074,365	-	1,074,365	396,207	317,504	713,711	-	965,097	20,156,854	6,596,336
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	259,167
39														
40		TOTAL			1,074,365	-	1,074,365	396,207	317,504	713,711	-	997,493	20,873,576	6,855,503

41 Depreciable Plant 20,065,325  
 42 Composite Depreciation Rate 4.9712%

<sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff

Pima Utility Company - Sewer Division  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	2006								Plant Balance	Accum. Deprec.
					Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)		
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	91,528	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	6,703	201,282	53,242
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	1,950	97,523	7,315
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	-	-	-	76,419	3,620,952	898,907
8	361.2	Manholes & Cleanouts	3.00%	2.00%	-	-	-	-	-	-	-	33,984	1,699,194	391,997
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-	12,303	615,152	96,402
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	368	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	226,251	83,764
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	10,630	-	10,630	-	5,000	5,000	-	135,374	1,356,558	826,566
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	-	-	-	-	11,620	116,201	25,538
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	58,153	-	58,153	-	18,992	18,992	-	110,274	1,122,323	664,322
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	3,089	-	3,089	-	-	-	-	2,569	129,976	25,480
21	380	Treatment & Disposal Equipment	3.00%	5.00%	72,002	-	72,002	-	10,214	10,214	-	481,439	8,659,683	3,939,106
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	52,894	793,016	344,261
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	237	3,554	(151)
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	1,207	6,036	2,858
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	9,048	45,239	44,231
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	-	-	-	-	-	-	-	16,104	161,039	78,177
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	199	1,993	897
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	643	643	-	69	1,068	(28)
32	396	Communication Equipment	3.00%	10.00%	16,537	-	16,537	-	-	-	-	12,558	133,847	41,653
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			160,411	-	160,411	-	34,849	34,849	-	973,030	20,282,416	7,534,517
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	291,563
39														
40		TOTAL			160,411	-	160,411	-	34,849	34,849	-	1,005,426	20,999,138	7,826,079

41 Depreciable Plant 20,190,887  
42 Composite Depreciation Rate 4.9796%

43  
44 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff r  
45  
46

Pima Utility Company - Sewer Division  
Plant Additions and Retirements

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Schedule B-2  
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	2007										Plant Balance De	Accum. prgc.
					Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)				
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	-	91,528	-	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	6,703	201,282	59,945	-	-
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	1,950	97,523	8,266	-	-
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	-	-	-	76,419	3,820,952	975,326	-	-
8	361.2	Manholes & Cleanouts	3.00%	2.00%	-	-	-	-	-	-	-	33,984	1,699,184	425,981	-	-
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-	12,303	615,152	108,705	-	-
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	228,251	101,841	-	-
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	29,215	-	29,215	-	14,835	14,835	-	136,375	1,370,938	948,106	-	-
17	371.2	Other Pumping Equipment	3.00%	10.00%	11,170	-	11,170	-	29,789	29,789	-	10,689	97,582	6,438	-	-
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	21,213	-	21,213	-	7,228	7,228	-	112,832	1,136,309	770,026	-	-
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	5,414	-	5,414	-	-	-	-	2,654	135,390	28,114	-	-
21	380	Treatment & Disposal Equipment	3.00%	5.00%	33,470	-	33,470	-	3,675	3,675	-	483,729	9,689,478	4,419,160	-	-
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	52,894	793,016	397,156	-	-
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	237	3,554	86	-	-
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	1,207	6,036	4,065	-	-
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	1,909	1,909	-	1,009	43,330	43,330	-	-
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	2,574	-	2,574	-	951	951	-	16,185	162,663	93,411	-	-
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	199	1,993	1,096	-	-
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	53	1,068	25	-	-
32	396	Communication Equipment	3.00%	10.00%	-	-	-	-	13,427	13,427	-	12,713	120,420	40,939	-	-
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%		-	-	-	-	-	-	-	-	-	-	-	-
35																
36		Sub Total			103,057	-	103,057	-	71,814	71,814	-	970,313	20,313,659	8,433,015		
37																
38		Post-In Service AFUDC		4.52%								32,396	716,722	323,958		
39																
40		TOTAL			103,057	-	103,057	-	71,814	71,814	-	1,002,709	21,030,380	8,756,973		

41 Depreciable Plant

20,222,130

42 Composite Depreciation Rate

4.9585%

43 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff

44

45

46

Pima Utility Company - Sewer Division  
Plant Additions and Retirements

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Witness: Jones/Bourassa

			2008											
Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance De	Accum. prec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	91,528	-
4	354	Structures & Improvements	3.00%	3.33%	49,150	-	49,150	-	-	-	-	7,521	250,433	67,468
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	1,950	97,523	11,216
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	33,561	-	33,561	-	-	-	-	76,755	3,854,512	1,052,081
8	361.2	Manholes & Cleanouts	3.00%	2.00%	15,412	-	15,412	-	-	-	-	34,138	1,714,606	460,119
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	17,097	-	17,097	-	-	-	-	12,474	632,249	121,179
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	228,251	109,919
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	29,252	-	29,252	-	11,030	11,030	-	138,005	1,389,160	1,075,081
17	371.2	Other Pumping Equipment	3.00%	10.00%	3,616	-	3,616	-	-	-	-	9,939	101,186	16,377
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	262,374	-	262,374	-	890	890	-	126,705	1,397,793	896,841
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	2,055	-	2,055	-	-	-	-	2,728	137,444	30,842
21	380	Treatment & Disposal Equipment	3.00%	5.00%	170,263	-	170,263	-	79,777	79,777	-	486,736	9,779,864	4,826,119
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	179,493	-	179,493	-	-	-	-	58,880	972,509	456,036
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	237	3,554	323
26	390.1	Computers & Software	3.00%	20.00%	982	-	982	-	-	-	-	1,305	7,018	5,371
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	21,500	-	21,500	1,500	(1,500)	21,830	21,830
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	-	-	-	1,463	5,000	6,463	-	15,943	156,200	102,892
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	199	1,993	1,295
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	1,068	1,068	-	27	0	(1,016)
32	396	Communication Equipment	3.00%	10.00%	-	-	-	-	6,706	6,706	-	11,707	113,714	46,940
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%	-	-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			763,255	-	763,255	22,963	104,471	127,434	1,500	991,827	20,949,479	9,298,908
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	356,354
39														
40		TOTAL			763,255	-	763,255	22,963	104,471	127,434	1,500	1,024,223	21,666,201	9,655,262

41 Depreciable Plant

20,857,951

43 Composite Depreciation Rate

4.9105%

45 <sup>1</sup> Shaded cells are per Decision No. 82184. Other cells per Staff

46



			2009											
Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/P Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	91,528	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	8,339	250,433	75,805
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	1,950	97,523	13,167
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	-	-	-	77,090	3,854,512	1,128,171
8	361.2	Manholes & Cleanouts	3.00%	2.00%	3,765	-	3,765	-	-	-	-	34,330	1,718,371	484,448
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-	12,645	632,249	133,824
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	226,251	117,996
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	211,774	-	211,774	-	90,630	90,630	-	144,973	1,510,304	1,128,424
17	371.2	Other Pumping Equipment	3.00%	10.00%	-	-	-	-	-	-	-	10,120	101,198	26,496
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	21,325	-	21,325	-	14,635	14,635	-	140,114	1,404,483	1,021,319
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	-	2,749	137,444	33,591
21	380	Treatment & Disposal Equipment	3.00%	5.00%	102,914	-	102,914	-	57,810	57,810	-	490,126	9,825,068	5,258,434
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	64,866	972,509	520,902
25	390	Office Furniture & Equipment	3.00%	6.67%	-	-	-	-	-	-	-	237	3,554	560
26	390.1	Computers & Software	3.00%	20.00%	-	-	-	-	-	-	-	1,404	7,018	6,774
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	-	21,830	21,830
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	-	-	-	-	-	-	-	15,620	156,200	118,512
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	199	1,993	1,495
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	0	0	(1,016)
32	396	Communication Equipment	3.00%	10.00%	5,115	-	5,115	-	-	-	-	11,627	118,828	57,567
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%		-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			344,894	-	344,894	-	163,075	163,075	-	1,024,467	21,131,298	10,160,300
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	388,750
39														
40		TOTAL			344,894	-	344,894	-	163,075	163,075	-	1,056,863	21,848,020	10,549,050

41 Depreciable Plant

21,039,770

42 Composite Depreciation Rate

5.0232%

43  
44  
45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff

46

			2010											
Line No.	NARUC Account No.	Description	Deprec. Before Jan. '00	Allowed Deprec. Rate <sup>1</sup>	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
2	352	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	91,528	-
4	354	Structures & Improvements	3.00%	3.33%	-	-	-	-	-	-	-	8,339	250,433	84,144
5	355	Power Generation Equipment	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	3.00%	2.00%	-	-	-	-	-	-	-	1,950	87,523	15,117
7	361.1	Collection Sewers - Gravity	3.00%	2.00%	-	-	-	-	-	-	-	77,090	3,854,512	1,206,261
8	361.2	Manholes & Cleanouts	3.00%	2.00%	73,351	-	73,351	-	-	-	-	35,101	1,791,722	529,549
9	362	Special Collecting Structures	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
10	363	Services to Customers	3.00%	2.00%	-	-	-	-	-	-	-	12,645	632,249	146,469
11	364	Flow Measuring Devices	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
12	365	Flow Measuring Installations	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
13	366	Reuse Services	3.00%	2.00%	-	-	-	-	-	-	-	-	-	-
14	367	Reuse Meters and Meter Installations	3.00%	8.33%	-	-	-	-	-	-	-	-	-	-
15	370	Receiving Wells	3.00%	3.57%	-	-	-	-	-	-	-	8,077	226,251	126,073
16	371.1	Pumping Equipment - Lift Stations	3.00%	10.00%	65,322	-	65,322	-	31,480	31,480	-	152,723	1,544,146	1,250,667
17	371.2	Other Pumping Equipment	3.00%	10.00%	2,243	-	2,243	-	-	-	-	10,232	103,441	36,728
18	371.3	Pumping Equipment - Recharge Wells	3.00%	10.00%	52,091	-	52,091	-	20,374	20,374	-	142,034	1,436,200	1,142,980
19	374	Reuse Distribution Reservoirs	3.00%	2.50%	-	-	-	-	-	-	-	-	-	-
20	375	Reuse Transmission and Distribution	3.00%	2.00%	-	-	-	-	-	-	-	2,749	137,444	36,340
21	380	Treatment & Disposal Equipment	3.00%	5.00%	80,127	-	80,127	-	21,123	21,123	-	492,728	9,884,071	5,730,039
22	381	Plant Sewers	3.00%	5.00%	-	-	-	-	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.00%	3.33%	-	-	-	-	-	-	-	-	-	-
24	389	Other Plant & Misc Equipment	3.00%	6.67%	-	-	-	-	-	-	-	64,866	972,509	585,769
25	390	Office Furniture & Equipment	3.00%	6.67%	2,975	-	2,975	-	-	-	-	336	6,529	896
26	390.1	Computers & Software	3.00%	20.00%	3,867	-	3,867	-	-	-	-	1,790	10,884	8,564
27	391	Transportation Equipment	3.00%	20.00%	-	-	-	-	-	-	-	-	21,830	21,830
28	392	Stores Equipment	3.00%	4.00%	-	-	-	-	-	-	-	-	-	-
29	393	Tools, Shop & Garage Equipment	3.00%	10.00%	-	-	-	-	-	-	-	15,620	156,200	134,132
30	394	Laboratory Equipment	3.00%	10.00%	-	-	-	-	-	-	-	199	1,983	1,684
31	395	Power Operated Equipment	3.00%	5.00%	-	-	-	-	-	-	-	0	0	(1,016)
32	396	Communication Equipment	3.00%	10.00%	-	-	-	-	-	-	-	11,883	118,828	69,450
33	397	Miscellaneous Equipment	3.00%	10.00%	-	-	-	-	-	-	-	-	-	-
34	398	Other Tangible Plant	3.00%		-	-	-	-	-	-	-	-	-	-
35														
36		Sub Total			279,976	-	279,976	-	72,977	72,977	-	1,038,364	21,338,296	11,125,687
37														
38		Post-In Service AFUDC		4.52%								32,396	716,722	421,146
39														
40		TOTAL			279,976	-	279,976	-	72,977	72,977	-	1,070,760	22,055,018	11,546,833

41 Depreciable Plant 21,246,768  
42 Composite Depreciation Rate 5.0396%

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45 <sup>1</sup> Shaded cells are per Decision No. 62184. Other cells per Staff  
46

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2

Exhibit  
Schedule B-2  
Page 4  
Witness: Bourassa

Accumulated Depreciation

Line No.			A	B	Adjustments C	D	E	
		Per Books		Difference				
		Accum.	Retirement	to	Intentionally	Intentionally	Intentionally	Adjusted
		Depr.	Adjustments	Computed	Left	Left	Left	Accum.
	Acct. No. Description			Balance	Blank	Blank	Blank	Depr.
5	351	Organization Cost	-	-	-	-	-	-
6	352	Franchise Cost	-	-	-	-	-	-
7	353	Land and Land Rights	(480)	84,624	-	-	-	84,144
8	354	Structures & Improvements	(3,055)	(1,579)	-	-	-	-
9	355	Power Generation Equipment	4,634	15,117	-	-	-	15,117
10	360	Collection Sewers - Force	827,319	378,943	-	-	-	1,206,261
11	361.1	Collection Sewers - Gravity	3,120,270	(2,590,720)	-	-	-	529,549
12	361.2	Manholes & Cleanouts	-	-	-	-	-	-
13	362	Special Collecting Structures	-	146,469	-	-	-	146,469
14	363	Services to Customers	327,378	(327,378)	-	-	-	-
15	364	Flow Measuring Devices	-	-	-	-	-	-
16	365	Flow Measuring Installations	-	-	-	-	-	-
17	366	Reuse Services	-	-	-	-	-	-
18	367	Reuse Meters and Meter Installations	-	126,073	-	-	-	126,073
19	370	Receiving Wells	-	1,250,667	-	-	-	1,250,667
20	371.1	Pumping Equipment - Lift Stations	-	(325,364)	-	-	-	36,728
21	371.2	Other Pumping Equipment	-	(95,534)	-	-	-	1,142,980
22	371.3	Pumping Equipment - Recharge Well:	-	(125,675)	-	-	-	-
23	374	Reuse Distribution Reservoirs	-	36,340	-	-	-	36,340
24	375	Reuse Transmission and Distribution	-	5,730,039	-	-	-	5,730,039
25	380	Treatment & Disposal Equipment	5,547,925	(647,917)	(4,900,008)	-	-	-
26	381	Plant Sewers	-	-	-	-	-	-
27	382	Outfall Sewer Lines	280,339	305,430	-	-	-	585,769
28	389	Other Plant & Misc Equipment	177,655	(176,759)	-	-	-	896
29	390	Office Furniture & Equipment	-	(2,813)	-	-	-	8,564
30	390.1	Computers & Software	-	(5,563)	-	-	-	21,830
31	391	Transportation Equipment	-	(3,170)	-	-	-	-
32	392	Stores Equipment	-	134,132	-	-	-	134,132
33	393	Tools, Shop & Garage Equipment	-	62,306	-	-	-	1,694
34	394	Laboratory Equipment	-	(1,016)	-	-	-	(1,016)
35	395	Power Operated Equipment	-	71,161	-	-	-	69,450
36	396	Communication Equipment	-	42,582	-	-	-	-
37	397	Miscellaneous Equipment	-	-	-	-	-	-
38	398	Other Tangible Plant	-	-	-	-	-	-
39		Post-in-service AFUDC	356,180	64,966	-	-	-	421,146
40		TOTALS	\$ 10,641,699	\$ (1,314,477)	\$ 2,219,610	\$ -	\$ -	\$ 11,546,833
41								
42								
43		Accumulated Depreciation per Books						\$ 10,641,699
44								
45		Increase (decrease) in Accumulated Depreciation						\$ 905,133
46								
47		Adjustment to Accumulated Depreciation						\$ 905,133
48								
49		<u>SUPPORTING SCHEDULES</u>						
50		Workpapers/B-2 Schedule - Pima Sewer.xlsx						
51		B-2, pages 3.1 to 3.18						

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

Exhibit  
Schedule B-2  
Page 5  
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line

No.

1

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Gross  
CIAC

Accumulated  
Amortization

Computed balance at 12/31/2010

\$ 937,694

\$ 578,092

Book balance at 12/31/2010

\$ 937,694

\$ 756,631

Increase (decrease)

\$ (0)

\$ (178,539)

Adjustment to CIAC/A.A. CIAC

\$ (0)

\$ 178,539

Label

3a

3b

SUPPORTING SCHEDULES

E-1

B-2, page 5.1

Line  
No.

		1998		1999		2000		2001		2002		2003	
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance
	12/31/1997	Additions	12/31/1998	Additions	12/31/1999	Additions	12/31/2000	Additions	12/31/2001	Additions	12/31/2002	Additions	12/31/2003
5 CIAC	355,985	523,655	879,640	58,054	937,694	-	937,694	-	937,694	-	937,694	-	937,694
7 Amortization Decision No. 58743	16,378												
8 Amortization Rate Before Jan '00			3.0000%		3.0000%								
9 Amortization Rate After Jan. '00							5.0611%		5.1188%		5.0071%		4.9617%
10 Amortization (1/2 yr convention)			18,534		27,260		47,458		48,000		46,952		46,528
11 Accumulated Amortization			34,912		62,172		109,630		157,630		204,582		251,108
12													
13 Net CIAC	339,607	523,655	844,728	58,054	875,522	-	829,064	-	780,064	-	733,112	-	686,586

		2004		2005		2006		2007		2008		2009	
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance
	12/31/2004	Additions	12/31/2005	Additions	12/31/2006	Additions	12/31/2007	Additions	12/31/2008	Additions	12/31/2009	Additions	12/31/2009
21 CIAC	-	937,694	-	937,694	-	937,694	-	937,694	-	937,694	-	937,694	-
23 Amortization Decision No. 58743													
24 Amortization Rate Before Jan '00													
25 Amortization Rate After Jan. '00													
26 Amortization (1/2 yr convention)													
27 Accumulated Amortization													
28													
29 Net CIAC	-	639,809	-	593,194	-	546,501	-	500,005	-	453,960	-	406,858	-

2010	
Balance	Balance
Additions	12/31/2010
37 CIAC	-
38	937,694
39	
40 Amortization Decision No. 58743	
41 Amortization Rate Before Jan '00	
42 Amortization Rate After Jan. '00	5.04%
43 Amortization (1/2 yr convention)	47,256
44 Accumulated Amortization	578,092
45	
46 Net CIAC	359,602

47

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Computation of Working Capital

Exhibit  
Schedule B-5  
Page 1  
Witness: Bourassa

Line  
No.

1	Cash Working Capital (1/8 of Allowance	
2	Operation and Maintenance Expense)	\$ 162,329
3	Pumping Power (1/24 of Pumping Power)	5,597
4	Purchased Water (1/24 of Purchased Water)	-
5		
6		
7		
8		
9	Total Working Capital Allowance	<u>\$ 167,926</u>
10		
11		
12	Working Capital Requested	<u>\$ -</u>
13		
14		
15		
16		
17		<u>Adjusted Test Year</u>
18	Total Operating Expense	\$ 2,654,991
19	Less:	
20	Income Tax	\$ 85,405
21	Property Tax	125,916
22	Depreciation	1,010,700
23	Purchased Water	-
24	Pumping Power	134,337
25	Allowable Expenses	<u>\$ 1,298,633</u>
26	1/8 of allowable expenses	<u>\$ 162,329</u>
27		

28  
29 SUPPORTING SCHEDULES:  
30 E-1

RECAP SCHEDULES:  
B-1

31  
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**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Income Statement

Exhibit  
Schedule C-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Fiat Rate Revenues	\$ 2,955,870	\$ 41,519	\$ 2,997,389	\$ 691,210	\$ 3,688,599
3	Metered Revenues	93,356	-	93,356		93,356
4	Other Revenues	42,030	(36,000)	6,030		6,030
5		<u>\$ 3,091,256</u>	<u>\$ 5,519</u>	<u>\$ 3,096,775</u>	<u>\$ 691,210</u>	<u>\$ 3,787,985</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 345,644	-	\$ 345,644		\$ 345,644
8	Salaries and Wages - Off. and Dir.	90,294	-	90,294		90,294
9	Employee Pensions and Benefits	115,720	-	115,720		115,720
10	Purchased Power	105,351	28,986	134,337		134,337
11	Chemicals	84,059	-	84,059		84,059
12	Materials and Supplies	184,532	-	184,532		184,532
13	Office Supplies and Expense	188,906	-	188,906		188,906
14	Contractual Services - Engineering	20,305	-	20,305		20,305
15	Contractual Services - Accounting	3,067	-	3,067		3,067
16	Contractual Services - Legal	108	-	108		108
17	Contractual Services - Other	61,500	-	61,500		61,500
18	Contractual Services - Water Testing	15,729	-	15,729		15,729
19	Rents - Equipment	698	-	698		698
20	Transportation Expenses	28,808	-	28,808		28,808
21	Insurance - Vehicle	3,067	-	3,067		3,067
22	Insurance - General Liability	20,916	-	20,916		20,916
23	Insurance - Worker's Comp	222	-	222		222
24	Reg. Comm. Exp.	-	-	-		-
25	Reg. Comm. Exp. - Rate Case	-	50,000	50,000		50,000
26	Bad Debt Expense	9,509	-	9,509		9,509
27	Miscellaneous Expense	2,174	-	2,174		2,174
28	Depreciation Expense	702,524	308,176	1,010,700		1,010,700
29	Amortization of Deferred Operating Costs	-	62,925	62,925		62,925
30	Taxes Other Than Income	10,449	-	10,449		10,449
31	Property Taxes	164,773	(38,857)	125,916	9,267	135,183
32	Income Tax	-	85,405	85,405	189,676	275,081
33		-	-	-		-
34	<b>Total Operating Expenses</b>	<u>\$ 2,158,356</u>	<u>\$ 496,635</u>	<u>\$ 2,654,991</u>	<u>\$ 198,943</u>	<u>\$ 2,853,934</u>
35	<b>Operating Income</b>	<u>\$ 932,900</u>	<u>\$ (491,116)</u>	<u>\$ 441,784</u>	<u>\$ 492,268</u>	<u>\$ 934,051</u>
36	<b>Other Income (Expense)</b>					
37	Interest Income	97	-	97		97
38	Other income	52	-	52		52
39	Interest Expense	(487,087)	266,956	(220,131)		(220,131)
40	Other Expense	(1,639)	-	(1,639)		(1,639)
41	Gain/Loss Sale of Fixed Assets	-	-	-		-
42	<b>Total Other Income (Expense)</b>	<u>\$ (488,577)</u>	<u>\$ 266,956</u>	<u>\$ (221,621)</u>	<u>\$ -</u>	<u>\$ (221,621)</u>
43	<b>Net Profit (Loss)</b>	<u>\$ 444,324</u>	<u>\$ (224,161)</u>	<u>\$ 220,163</u>	<u>\$ 492,268</u>	<u>\$ 712,431</u>

44  
45 SUPPORTING SCHEDULES:  
46 C-1, page 2  
47 E-2  
48

RECAP SCHEDULES:  
A-1

Line No.	1	2	3	4	5	6	7	8	9	10	Test Year	Proposed	Adjusted
	Test Year	Depreciation	Property	Rate	Revenue	Purchased	Annualize	Amortize	Annualize	Interest	Test Year	Proposed	Adjusted
	Book		Taxes	Case Expense	Annualization	Power	Purchased	Deferred	Effluent Credit	Income Tax	Adjusted	Rate	with Rate
	Results				& Bill Correct		Power	Operating Costs	Sales	Synchronization	Results	Increase	Increase
1 Revenues													
2 Flat Rate Revenues	\$ 2,955,870				41,519						\$ 2,997,389	\$ 691,210	\$ 3,688,599
3 Metered Revenues	93,356										93,356		93,356
4 Other Revenues	42,030								(36,000)		6,030		6,030
5	\$ 3,091,256	\$ -	\$ -	\$ -	\$ 41,519	\$ -	\$ -	\$ -	\$ (36,000)	\$ -	\$ 3,096,775	\$ 691,210	\$ 3,787,985
6 Operating Expenses													
7 Salaries and Wages	\$ 345,644										\$ 345,644		\$ 345,644
8 Salaries and Wages - Off. and Dir.	90,294										90,294		90,294
9 Employee Pensions and Benefits	115,720										115,720		115,720
10 Purchased Power	105,351					29,923	(937)				134,337		134,337
11 Chemicals	84,059										84,059		84,059
12 Materials and Supplies	184,532										184,532		184,532
13 Office Supplies and Expense	168,906										168,906		168,906
14 Contractual Services - Engineering	20,305										20,305		20,305
15 Contractual Services - Accounting	3,067										3,067		3,067
16 Contractual Services - Legal	108										108		108
17 Contractual Services - Other	61,500										61,500		61,500
18 Contr. Services - Water Testing	15,729										15,729		15,729
19 Rents - Equipment	698										698		698
20 Transportation Expenses	28,808										28,808		28,808
21 Insurance - Vehicle	3,067										3,067		3,067
22 Insurance - General Liability	20,916										20,916		20,916
23 Insurance - Worker's Comp	222										222		222
24 Reg. Comm. Exp.	-										-		-
25 Reg. Comm. Exp. - Rate Case	-			50,000							50,000		50,000
26 Bad Debt Expense	9,509										9,509		9,509
27 Miscellaneous Expense	2,174										2,174		2,174
28 Depreciation Expense	702,524	308,176									1,010,700		1,010,700
29 Amortization of Deferred Op. Costs	-							62,925			62,925		62,925
30 Taxes Other Than Income	10,449										10,449		10,449
31 Property Taxes	164,773		(38,857)								125,916	9,267	135,183
32 Income Tax	-									85,405	85,405	189,676	275,081
33													
34 Total Operating Expenses	\$ 2,156,356	\$ 308,176	\$ (38,857)	\$ 50,000	\$ -	\$ 29,923	\$ (937)	\$ 62,925	\$ -	\$ 85,405	\$ 2,654,891	\$ 190,943	\$ 2,845,834
35 Operating Income	\$ 932,900	\$ (308,176)	\$ 38,857	\$ (50,000)	\$ 41,519	\$ (29,923)	\$ 937	\$ (62,925)	\$ (36,000)	\$ -	\$ (85,405)	\$ 492,268	\$ 934,051
36 Other Income (Expense)													
37 Interest Income	97										97		97
38 Other Income	52										52		52
39 Interest Expense	(487,087)									268,956	(220,131)		(220,131)
40 Other Expense	(1,639)										(1,639)		(1,639)
41 Gain/Loss Sale of Fixed Assets	-										-		-
42 Total Other Income (Expense)	\$ (488,577)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 268,956	\$ (221,621)	\$ -	\$ (221,621)
43 Net Profit (Loss)	\$ 444,324	\$ (308,176)	\$ 38,857	\$ (50,000)	\$ 41,519	\$ (29,923)	\$ 937	\$ (62,925)	\$ (36,000)	\$ 268,956	\$ (85,405)	\$ 492,268	\$ 712,431
44													
45 SUPPORTING SCHEDULES:													
46 C-2													
47 E-2													

RECAP SCHEDULES:  
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Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Adjustments to Revenues and Expenses

Exhibit  
Schedule C-2  
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Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>		
	Depreciation Expense	Property Taxes	Rate Case Expense	Rev. Annual. & Bill Correct.	Purchased Power	Annual. Purchased Power		
1								
2								
3	Revenues			41,519			41,519	
4								
5	Expenses	308,176	(38,857)	50,000	29,923	(937)	348,305	
6								
7	Operating							
8	Income	(308,176)	38,857	(50,000)	41,519	(29,923)	937	(306,786)
9								
10	Interest							
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	(308,176)	38,857	(50,000)	41,519	(29,923)	937	(306,786)
17								
18								
19		<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
20		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
21		Effluent Credits	Deferred Op. Costs	Interest Synch.	Income Taxes			
22								
23	Revenues	(36,000)						5,519
24								
25	Expenses		62,925		85,405			496,635
26								
27	Operating							
28	Income	(36,000)	(62,925)	-	(85,405)	-	-	(491,116)
29								
30	Interest							
31	Expense			266,956				266,956
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	(36,000)	(62,925)	266,956	(85,405)	-	-	(224,161)
37								

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Adjustments to Revenues and Expenses  
Adjustment Number 1

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Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1					
2					
3					
4	351	Organization Cost	-	0.00%	-
5	352	Franchise Cost	-	0.00%	-
6	353	Land and Land Rights	91,528	0.00%	-
7	354	Structures & Improvements	250,433	3.33%	8,339
8	355	Power Generation Equipment	-	5.00%	-
9	360	Collection Sewers - Force	97,523	2.00%	- *
10	361.1	Collection Sewers - Gravity	3,854,512	2.00%	77,090
11	361.2	Manholes & Cleanouts	1,791,722	2.00%	35,834
12	362	Special Collecting Structures	-	2.00%	-
13	363	Services to Customers	632,249	2.00%	12,645
14	364	Flow Measuring Devices	-	10.00%	-
15	365	Flow Measuring Installations	-	10.00%	-
16	366	Reuse Services	-	2.00%	-
17	367	Reuse Meters and Meter Installations	-	8.33%	-
18	370	Receiving Wells	226,251	3.57%	- *
19	371.1	Pumping Equipment - Lift Stations	1,544,146	10.00%	154,415
20	371.2	Other Pumping Equipment	103,441	10.00%	- *
21	371.3	Pumping Equipment - Recharge Wells	1,436,200	10.00%	143,620
22	374	Reuse Distribution Reservoirs	-	2.50%	-
23	375	Reuse Transmission and Distribution	137,444	2.00%	- *
24	380	Treatment & Disposal Equipment	9,884,071	5.00%	494,204
25	381	Plant Sewers	-	5.00%	-
26	382	Outfall Sewer Lines	-	3.33%	-
27	389	Other Plant & Misc Equipment	972,509	6.67%	64,866
28	390	Office Furniture & Equipment	6,529	6.67%	- *
29	390.1	Computers & Software	10,884	20.00%	- *
30	391	Transportation Equipment	21,830	20.00%	4,366
31	392	Stores Equipment	-	4.00%	-
32	393	Tools, Shop & Garage Equipment	156,200	10.00%	15,620
33	394	Laboratory Equipment	1,993	10.00%	199
34	395	Power Operated Equipment	0	5.00%	- *
35	396	Communication Equipment	118,828	10.00%	11,883
36	397	Miscellaneous Equipment	-	10.00%	-
37	398	Other Tangible Plant	-	10.00%	-
38		Post-in-service AFUDC	716,722	4.52%	32,396
39					
40					
41		TOTALS	\$ 22,055,018		\$ 1,055,478
42					
43			Gross CIAC	Amort. Rate	
44		Less: Amortization of Contributions	\$ 937,694	4.7753%	\$ (44,777)
45		Total Depreciation Expense			\$ 1,010,700
46					
47		Adjusted Test Year Depreciation Expense			702,524
48					
49		Increase (decrease) in Depreciation Expense			308,176
50					
51		Adjustment to Revenues and/or Expenses			\$ 308,176
52					
53		<u>SUPPORTING SCHEDULE</u>			
54		B-2, page 3			

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 2

Exhibit  
Schedule C-2  
Page 3  
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Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues - 2007	\$ 3,096,775	\$ 3,096,775
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	6,193,550	6,193,550
4	Company Recommended Revenue	3,096,775	3,787,985
5	Subtotal (Line 4 + Line 5)	9,290,325	9,981,535
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	3,096,775	3,327,178
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	6,193,550	6,654,357
10	Plus: 10% of CWIP - 2010	20,190	20,190
11	Less: Net Book Value of Licensed Vehicles	21,830	21,830
12	Full Cash Value (Line 9 + Line 10 - Line 11)	6,191,909	6,652,716
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	1,238,382	1,330,543
15	Composite Property Tax Rate - Obtained from ADOR	10.0552%	10.0552%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 124,522	\$ 133,789
17	Tax on Parcels	1,393	1,393
18	Total Property Taxes (Line 16 + Line 17)	\$ 125,916	
19	Test Year Property Taxes	\$ 164,773	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ (38,857)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 135,183
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 125,916
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 9,267
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 9,267
27	Increase in Revenue Requirement		\$ 691,210
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.34070%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
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Page 4  
Witness: Bourassa

Rate Case Expense

Line  
No.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20

Estimated Rate Case Expense

\$ 200,000

Estimated Amortization Period in Years

4

Annual Rate Case Expense

\$ 50,000

Test Year Rate Case Expense

\$ -

Increase(decrease) Rate Case Expense

\$ 50,000

Adjustment to Revenue and/or Expense

\$ 50,000

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Schedule C-2  
Page 5  
Witness: Bourassa

Revenue Annualization and Billing Correction

Line  
No.

1

2

3

4

Revenue Annualization

\$ 13,363

5

Effluent Billing Correction

28,156

6

7

8

Total Revenue from Annualization

\$ 41,519

9

10

11

Adjustment to Revenue and/or Expense

\$ 41,519

12

13

SUPPORTING SCHEDULES

14

C-2 pages 5.1 to 5.8

15

H-1, page 1

16

17

18

19

20

**Pima Utility Company - Wastewater Division**  
Revenue Annualization to Year End Customers: Residential 5/8x3/4 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.1  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	9,743	9,743	9,743	9,743	9,743	9,743	9,743
2	Actual Customers	9,748	9,745	9,762	9,765	9,752	9,742	9,736
3	Increase in Number of Customers/Bills	(5)	(2)	(19)	(22)	(9)	1	7
4	Average Revenue / Present Rates	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73
5	Revenue Annualization / Present Rates	\$ (114)	\$ (45)	\$ (432)	\$ (500)	\$ (205)	\$ 23	\$ 159
6								
7	Increase in Number of Customers	(5)	(2)	(19)	(22)	(9)	1	7
8	Average Revenue / Proposed Rates	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79
9	Revenue Annualization / Proposed Rates	\$ (139)	\$ (56)	\$ (528)	\$ (611)	\$ (250)	\$ 28	\$ 195
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13								
14								
15	Year End Number of Customers	9,743	9,743	9,743	9,743	9,743		
16	Actual Customers	9,745	9,747	9,744	9,733	9,743		
17	Increase in Number of Customers/Bills	(2)	(4)	(1)	10	-		
18	Average Revenue / Present Rates	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73		
19	Revenue Annualization / Present Rates	\$ (45)	\$ (91)	\$ (23)	\$ 227	\$ -		
20								
21	Increase in Number of Customers	(2)	(4)	(1)	10	-		
22	Average Revenue / Proposed Rates	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79		
23	Revenue Annualization / Proposed Rates	\$ (45)	\$ (91)	\$ (23)	\$ 227	\$ -		
24	Additional Gallons to be Produced	-	-	-	-	-		

**Pima Utility Company - Wastewater Division**  
Revenue Annualization to Year End Customers: Residential 1 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.2  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	207	207	207	207	207	207	207
2	Actual Customers	204	202	204	203	205	205	206
3	Increase in Number of Customers/Bills	3	5	3	4	2	2	1
4	Average Revenue / Present Rates	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33
5	Revenue Annualization / Present Rates	\$ 178	\$ 297	\$ 178	\$ 237	\$ 119	\$ 119	\$ 59
6								
7	Increase in Number of Customers	3	5	3	4	2	2	1
8	Average Revenue / Proposed Rates	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53
9	Revenue Annualization / Proposed Rates	\$ 218	\$ 363	\$ 218	\$ 290	\$ 145	\$ 145	\$ 73
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13								
14								
15	Year End Number of Customers	207	207	207	207	207		
16	Actual Customers	202	206	207	203	205		
17	Increase in Number of Customers/Bills	5	1	-	4	2		
18	Average Revenue / Present Rates	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33		
19	Revenue Annualization / Present Rates	\$ 297	\$ 59	\$ -	\$ 237	\$ 119		
20								
21	Increase in Number of Customers	5	1	-	4	2		
22	Average Revenue / Proposed Rates	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53		
23	Revenue Annualization / Proposed Rates	\$ 297	\$ 59	\$ -	\$ 237	\$ 119		
24	Additional Gallons to be Produced	-	-	-	-	-		

**Pima Utility Company - Wastewater Division**  
Revenue Annualization to Year End Customers: Residential 5/8x3/4 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.3  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	24	24	24	24	24	24	24
2	Actual Customers	23	23	23	23	23	23	24
3	Increase in Number of Customers/Bills	1	1	1	1	1	1	-
4	Average Revenue / Present Rates	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73
5	Revenue Annualization / Present Rates	\$ 23	\$ 23	\$ 23	\$ 23	\$ 23	\$ 23	\$ -
6								
7	Increase in Number of Customers	1	1	1	1	1	1	-
8	Average Revenue / Proposed Rates	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79
9	Revenue Annualization / Proposed Rates	\$ 28	\$ 28	\$ 28	\$ 28	\$ 28	\$ 28	\$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13								
14								
15	Year End Number of Customers	24	24	24	24	24		
16	Actual Customers	24	24	24	24	24		
17	Increase in Number of Customers/Bills	-	-	-	-	-	6	
18	Average Revenue / Present Rates	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73	\$ 22.73		
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 136	
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79	\$ 27.79		
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167	
24	Additional Gallons to be Produced	-	-	-	-	-		



Pima Utility Company - Wastewater Division  
Revenue Annualization to Year End Customers: Commercial 3/4 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.4  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	
1	Year End Number of Customers	3	3	3	3	3	3	3	
2	Actual Customers	3	3	3	3	3	3	3	
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-	
4	Average Revenue / Present Rates	\$ 35.33	\$ 35.33	\$ 35.33	\$ 35.33	\$ 35.33	\$ 35.33	\$ 35.33	
5	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
6									
7	Increase in Number of Customers	-	-	-	-	-	-	-	
8	Average Revenue / Proposed Rates	\$ 43.19	\$ 43.19	\$ 43.19	\$ 43.19	\$ 43.19	\$ 43.19	\$ 43.19	
9	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
10	Additional Gallons to be Produced	-	-	-	-	-	-	-	
11									
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec		Total Year	
13									
14									
15	Year End Number of Customers	3	3	3	3	3			
16	Actual Customers	3	3	3	3	3			
17	Increase in Number of Customers/Bills	-	-	-	-	-			
18	Average Revenue / Present Rates	\$ 35.33	\$ 35.33	\$ 35.33	\$ 35.33	\$ 35.33			
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	
20									
21	Increase in Number of Customers	-	-	-	-	-			
22	Average Revenue / Proposed Rates	\$ 43.19	\$ 43.19	\$ 43.19	\$ 43.19	\$ 43.19			
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	
24	Additional Gallons to be Produced	-	-	-	-	-		-	

**Pima Utility Company - Wastewater Division**  
Revenue Annualization to Year End Customers: Commercial 1 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.5  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	22	22	22	22	22	22	22
2	Actual Customers	25	25	25	25	25	25	25
3	Increase in Number of Customers/Bills	(3)	(3)	(3)	(3)	(3)	(3)	(3)
4	Average Revenue / Present Rates	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33
5	Revenue Annualization / Present Rates	\$ (178)	\$ (178)	\$ (178)	\$ (178)	\$ (178)	\$ (178)	\$ (178)
6								
7	Increase in Number of Customers	(3)	(3)	(3)	(3)	(3)	(3)	(3)
8	Average Revenue / Proposed Rates	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53
9	Revenue Annualization / Proposed Rates	\$ (218)	\$ (218)	\$ (218)	\$ (218)	\$ (218)	\$ (218)	\$ (218)
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13		22	22	22	22	22		
14		22	22	22	22	22		
15	Year End Number of Customers							
16	Actual Customers	-	-	-	-	-	(21)	
17	Increase in Number of Customers/Bills	-	-	-	-	-		
18	Average Revenue / Present Rates	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33	\$ 59.33		
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,246)	
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53	\$ 72.53		
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,523)	
24	Additional Gallons to be Produced	-	-	-	-	-		

**Pima Utility Company - Wastewater Division**  
Revenue Annualization to Year End Customers: Commercial 1.5 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.6  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	9	9	9	9	9	9	9
2	Actual Customers	9	9	9	9	9	9	9
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	\$ 117.33	\$ 117.33	\$ 117.33	\$ 117.33	\$ 117.33	\$ 117.33	\$ 117.33
5	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	\$ 143.44	\$ 143.44	\$ 143.44	\$ 143.44	\$ 143.44	\$ 143.44	\$ 143.44
9	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13								
14								
15	Year End Number of Customers	9	9	9	9	9		
16	Actual Customers	9	9	9	9	9		
17	Increase in Number of Customers/Bills	-	-	-	-	-		
18	Average Revenue / Present Rates	\$ 117.33	\$ 117.33	\$ 117.33	\$ 117.33	\$ 117.33		
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -		
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	\$ 143.44	\$ 143.44	\$ 143.44	\$ 143.44	\$ 143.44		
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -		
24	Additional Gallons to be Produced	-	-	-	-	-		

**Pima Utility Company - Wastewater Division**  
Revenue Annualization to Year End Customers: Commerical 2 Inch Meter  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.7  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	52	52	52	52	52	52	52
2	Actual Customers	51	51	51	51	51	51	52
3	Increase in Number of Customers/Bills	1	1	1	1	1	1	-
4	Average Revenue / Present Rates	\$ 187.33	\$ 187.33	\$ 187.33	\$ 187.33	\$ 187.33	\$ 187.33	\$ 187.33
5	Revenue Annualization / Present Rates	\$ 187	\$ 187	\$ 187	\$ 187	\$ 187	\$ 187	\$ -
6								
7	Increase in Number of Customers	1	1	1	1	1	1	-
8	Average Revenue / Proposed Rates	\$ 229.01	\$ 229.01	\$ 229.01	\$ 229.01	\$ 229.01	\$ 229.01	\$ 229.01
9	Revenue Annualization / Proposed Rates	\$ 229	\$ 229	\$ 229	\$ 229	\$ 229	\$ 229	\$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13								
14								
15	Year End Number of Customers	52	52	52	52	52		
16	Actual Customers	52	52	52	52	52		
17	Increase in Number of Customers/Bills	-	-	-	-	-	6	
18	Average Revenue / Present Rates	\$ 187.33	\$ 187.33	\$ 187.33	\$ 187.33	\$ 187.33		
19	Revenue Annualization / Present Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,124	
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	\$ 229.01	\$ 229.01	\$ 229.01	\$ 229.01	\$ 229.01		
23	Revenue Annualization / Proposed Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,374	
24	Additional Gallons to be Produced	-	-	-	-	-		

**Pima Utility Company - Wastewater Division**  
Revenue Annualization to Year End Customers: Irrigation - Recovered Effluent  
Test Year Ended December 31, 2010

Exhibit  
Schedule C-2  
Page 5.8  
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	1	1	1	1	1	1	1
2	Actual Customers	1	1	1	1	1	1	1
3	Increase in Number of Customers/Bills	1	1	1	1	1	1	1
4	Average Revenue / Present Rates	\$ 804.00	\$ 680.46	\$ 575.42	\$ 631.21	\$ 960.02	\$ 1,814.30	\$ 2,449.98
5	Revenue Annualization / Present Rates	\$ 804	\$ 680	\$ 575	\$ 631	\$ 960	\$ 1,814	\$ 2,450
6								
7	Increase in Number of Customers	1	1	1	1	1	1	1
8	Average Revenue / Proposed Rates	\$ 970.34	\$ 821.24	\$ 694.47	\$ 761.81	\$ 1,158.64	\$ 2,189.67	\$ 2,956.87
9	Revenue Annualization / Proposed Rates	\$ 970	\$ 821	\$ 694	\$ 762	\$ 1,159	\$ 2,190	\$ 2,957
10	Additional Gallons to be Produced	1,386,200	1,173,200	992,100	1,088,300	1,655,200	3,128,100	4,224,100
11								
12		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	
13		1	1	1	1	1		
14	Year End Number of Customers	1	1	1	1	1		
15	Actual Customers	1	1	1	1	1	12	
16	Increase in Number of Customers/Bills	1	1	1	1	1		
17	Average Revenue / Present Rates	\$ 849.93	\$ 1,540.48	\$ 711.37	\$ 746.40	\$ 732.08		
18	Revenue Annualization / Present Rates	\$ 850	\$ 1,540	\$ 711	\$ 746	\$ 732	\$ 12,496	
19								
20								
21	Increase in Number of Customers	1	1	1	1	1		
22	Average Revenue / Proposed Rates	\$ 1,025.78	\$ 1,859.20	\$ 858.55	\$ 900.83	\$ 883.54		
23	Revenue Annualization / Proposed Rates	\$ 850	\$ 1,540	\$ 711	\$ 746	\$ 732	\$ 15,081	
24	Additional Gallons to be Produced	1,465,400	2,656,000	1,226,500	1,286,900	1,262,200	21,544,200	

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Schedule C-2  
Page 6  
Witness: Bourassa

Purchased Power Adjustments

Line  
No.

1

2

3 Rebate from Ocotillo Water Conservation District

\$ 26,712

4 Add power costs for recharge wells

3,211

5

6 Total

\$ 29,923

7

8

9

10

11 Adjustment to purchased power expense

\$ 29,923

12

13

14 Adjustment to Revenue and/or Expense

\$ 29,923

15

16 REFERENCE

17 Testimony

18

19

20

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Schedule C-2  
Page 7  
Witness: Bourassa

Annualize Purchased Power

Line  
No.

1		
2	Test Year purchased power expense	\$ 105,351
3	Purchased Power Adjustments (Adjustment 5)	29,923
4		
5	Test Year purchased power expense	\$ 135,273
6		
7	Gallons treated during test year (in ,1000's)	390,108
8		
9	Cost per 1,000 gallons = line3 / line 5	\$ 0.35
10		
11	Additional billings from annualization	(69)
12		
13	Annual waste water flow per additional connection (in 1,000's)	38.8
14		
15		
16	Additional gallons treated from annualization (in 1,000's)	(2,676)
17		
18	Additional purchased power expense	\$ (937)
19		
20		
21	Adjustment to Revenue and/or Expense	\$ (937)
22		
23	<u>REFERENCE</u>	
24	Line 3: C-1 line 11	
25	Line 5: from 2010 annual report	
26	Line 11: Annual gallons treated per customer. See Schedule E-7	
27	Line 14: Line 9 times Line 11	
28	Line 16: Line 7 times Line 14	

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Schedule C-2  
Page 8  
Witness: Bourassa

Line

No.

1 Amorization of deferred operating costs

2

3

4 Deferred operating costs at end of test year

\$ 1,048,756

5

6 Proposed percentage of costs to be recovered

30%

7

8 Proposed amount to be recovered

\$ 314,627

9

10 Amortization period (years)

5

11

12 Annual amortization

\$ 62,925

13

14

15

16 Adjustment to Amortization Expense

\$ 62,925

17

18

19 Adjustment to Revenue and/or Expense

\$ 62,925

20

21

22

23

24



Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 8

Exhibit  
Schedule C-2  
Page 9  
Witness: Bourassa

Line

No.

1 Annualize effluent credit sales

2

3 Test year effluent credit sales

\$ 40,000

4

5 Normalization period (years)

\$ 10

6

7 Normalized annual effluent credit sales

\$ 4,000

8

9

10 Test year effluent credit sales

\$ 40,000

11

12

13 Adjustment to Revenue and/or Expense

\$ (36,000)

14

15

16

17

18

19

20

21

22

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Adjustment to Revenues and Expenses  
Adjustment Number 9

Exhibit  
Schedule C-2  
Page 10  
Witness: Bourassa

Interest Synchronization

Line  
No.

1			
2			
3			
4	Fair Value Rate Base	\$ 9,863,271	
5	Weighted Cost of Debt	2.23%	
6	Interest Expense		\$ 220,131
7			
8	Test Year Interest Expense		<u>\$ 487,087</u>
9			
10	Increase (decrease) in Interest Expense		(266,956)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		<u><u>\$ 266,956</u></u>

Weighted Cost of Debt Computation

		<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
18					
19					
20	Debt	\$ 8,370,000	31.08%	7.18%	2.23%
21	Equity	<u>\$ 18,563,072</u>	<u>68.92%</u>	<u>10.50%</u>	<u>7.24%</u>
22	Total	\$ 26,933,072	100.00%		9.47%
23					
24					
25					
26					
27					
28					
29					
30					

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Adjustment to Revenues and/or Expenses  
Adjustment Number 10

Exhibit  
Schedule C-2  
Page 11  
Witness: Bourassa

Line  
No.

1	<u>Income Tax Computation</u>		
2			
3			
4		<b>Test Year</b>	<b>Adjusted</b>
5		<b>Adjusted</b>	<b>with Rate</b>
6		<b>Results</b>	<b>Increase</b>
6	Revenue	\$ 3,096,775	\$ 3,787,985
7	Operating Expenses Excluding Income Taxes	2,569,586	2,578,853
8	Synchronized Interest	220,131	220,131
9			
10	Income Before Taxes	\$ 307,058	\$ 989,001
11			
12	Arizona Income Before Taxes	\$ 307,058	\$ 989,001
13			
14	Less: Effective Arizona Income Tax	\$ 13,654	\$ 43,979
15	Rate = 4.45% <sup>1</sup>		
16	Arizona Taxable Income	\$ 293,404	\$ 945,022
17			
18	Arizona Income Taxes	\$ 13,654	\$ 43,979
19			
20	Federal Income Before Taxes	\$ 307,058	\$ 989,001
21			
22	Less Arizona Income Taxes	\$ 13,654	\$ 43,979
23			
24	Federal Taxable Income	\$ 293,404	\$ 945,022
25			
26			
27			
28	FEDERAL INCOME TAXES:		
29	Effective Federal Tax Rate 24.45% <sup>1</sup>	\$ 71,751	\$ 231,101
30			
31			
32			
33			
34			
35	Federal Income Taxes	\$ 71,751	\$ 231,101
36			
37			
38	Total Income Tax	\$ 85,405	\$ 275,080
39			
40	Overall Tax Rate	27.81%	27.81%
41			
42	Income Tax	\$ 85,405	\$ 275,080
43	Test Year Income tax Expense	-	85,405
44	Adjustment to Income Tax Expense	\$ 85,405	\$ 189,675
45			
46			

<sup>1</sup> See work papers/testimony

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Computation of Gross Revenue Conversion Factor

Exhibit  
Schedule C-3  
Page 1  
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	27.8140%
2		
3	Property Taxes	0.9678%
4		
5		
6	Total Tax Percentage	28.7818%
7		
8	Operating Income % = 100% - Tax Percentage	71.2182%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.4041
15		
16		
17		
18		
19		
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21		
22		
23		
24		

SUPPORTING SCHEDULES:  
C-3, page 2

RECAP SCHEDULES:  
A-1

25  
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	28.7818%					
5	Subtotal (L3 - L4)	71.2182%					
6	Revenue Conversion Factor (L1 / L5)	1.404134					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	27.8140%					
9	One Minus Combined Income Tax Rate (L7 - L8)	72.1860%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	4.4468%					
14	Federal Taxable Income (L12 - L13)	95.5532%					
15	Applicable Federal Income Tax Rate (Line 44)	24.4546%					
16	Effective Federal Income Tax Rate (L14 x L15)	23.3672%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		27.8140%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	27.8140%					
20	One Minus Combined Income Tax Rate (L18-L19)	72.1860%					
21	Property Tax Factor	1.3407%					
22	Effective Property Tax Factor (L20*L21)		0.9678%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			28.7818%			
24	Required Operating Income	\$ 934,052					
25	Adjusted Test Year Operating Income (Loss)	\$ 441,784					
26	Required Increase in Operating Income (L24 - L25)		\$ 492,268				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	\$ 275,081					
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 85,405					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 189,676				
30	Recommended Revenue Requirement	\$ 3,787,985					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 135,183					
36	Property Tax on Test Year Revenue	\$ 125,916					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 9,267				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 691,211				

Calculation of Income Tax:

	(A)	(B)	(C)	(D)	(E)	(F)
	Test Year			Company Recommended		
	Total	Pima Utility Company - Wastewater Division		Total	Pima Utility Company - Wastewater Division	
39	Revenue	\$ 3,096,775	\$ 3,096,775	\$ 3,787,985	\$ 3,787,985	
40	Operating Expenses Excluding Income Taxes	\$ 2,569,586	\$ 2,569,586	\$ 2,578,853	\$ 2,578,853	
41	Synchronized Interest (L47)	\$ 220,131	\$ 220,131	\$ 220,131	\$ 220,131	
42	Arizona Taxable Income (L30 - L31 - L32)	\$ 307,058	\$ 307,058	\$ 989,002	\$ 989,002	
43	Arizona State Effective Income Tax Rate (see work papers)	4.4468%	4.4468%	4.4468%	4.4468%	4.4468%
44	Arizona Income Tax (L33 x L34)	\$ 13,654	\$ 13,654	\$ 43,979	\$ 43,979	
45	Federal Taxable Income (L33 - L35)	\$ 293,404	\$ 293,404	\$ 945,023	\$ 945,023	
46	Effective Tax Rate (see work papers)	24.4546%	24.4546%	24.4546%	24.4546%	
47	Federal Income Tax	\$ 71,751	\$ 71,751	\$ 231,102	\$ 231,102	
48						
49						
50						
51	Total Federal Income Tax	\$ 71,751	\$ 71,751	\$ 231,102	\$ 231,102	
52	Combined Federal and State Income Tax (L35 + L42)	\$ 85,405	\$ 85,405	\$ 275,081	\$ 275,081	

53  
54W ATER Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45]  
55

24.4546%

Calculation of Interest Synchronization:

56	Rate Base	\$ 9,863,271	N/A
57	Weighted Average Cost of Debt	2.2318%	0.0000%
58	Synchronized Interest (L56 X L57)	\$ 220,131	\$ -

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Comparative Balance Sheets

Exhibit  
Schedule E-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2010	Year Ended 12/31/2009	Year Ended 12/31/2008
1	<b>ASSETS</b>			
2	Plant In Service	\$ 20,563,838	\$ 20,335,953	\$ 20,012,385
3	Non-Utility Plant	-	-	-
4	Construction Work in Progress	20,190	-	97,018
5	Less: Accumulated Depreciation	(10,641,699)	(9,896,791)	(9,096,854)
6	Net Plant	<u>\$ 9,942,329</u>	<u>\$ 10,439,163</u>	<u>\$ 11,012,548</u>
7				
8	Debt Reserve Fund	\$ 952,499	\$ 952,499	\$ 957,137
9				
10		<u>\$ 952,499</u>	<u>\$ 952,499</u>	<u>\$ 957,137</u>
11				
12	<b>CURRENT ASSETS</b>			
13	Cash and Equivalents			
14	Restricted Cash	1,472,031	4,795	255,019
15	Accounts Receivable, Net	278,895	269,654	268,127
16	Other Receivables	40,000	-	-
17	Notes Receivable	153,361	1,269,002	507,059
18	Materials and Supplies			
19	Prepayments			
20	Other Current Assets			
21	Total Current Assets	<u>\$ 1,944,287</u>	<u>\$ 1,543,452</u>	<u>\$ 1,030,205</u>
22				
23	Unamortized Debt Discount	\$ 220,893	\$ 246,881	\$ 272,868
24	Other Deferred Debits	1,213,851	1,213,851	1,213,851
25	Total Deferred Debits	<u>\$ 1,434,744</u>	<u>\$ 1,460,732</u>	<u>\$ 1,486,719</u>
26				
27	Other Investments & Special Funds	\$ -	\$ -	\$ -
28				
29	<b>TOTAL ASSETS</b>	<u><u>\$ 14,273,859</u></u>	<u><u>\$ 14,395,845</u></u>	<u><u>\$ 14,486,609</u></u>
30				
31				
32	<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
33				
34	Common Equity	\$ 7,272,375	\$ 6,828,052	\$ 6,429,704
35				
36	Long-Term Debt	<u>\$ 6,125,000</u>	<u>\$ 6,595,000</u>	<u>\$ 7,035,000</u>
37				
38	<b>CURRENT LIABILITIES</b>			
39	Accounts Payable	\$ 96,544	\$ 124,110	\$ 74,211
40	Current Portion of Long-Term Debt			
41	Payables to Associated Companies	-	-	-
42	Security Deposits			
43	Customer Meter Deposits, Current			
44	Accrued Taxes	82,386	79,230	76,205
45	Accrued Interest	222,030	239,068	255,019
46	Other Current Liabilities	9,148	8,522	7,229
47	Total Current Liabilities	<u>\$ 410,108</u>	<u>\$ 450,930</u>	<u>\$ 412,662</u>
48	<b>DEFERRED CREDITS</b>			
49	Customer Meter Deposits, less current	\$ -	\$ -	\$ -
50	Advances in Aid of Construction	285,313	298,417	343,412
51	Accumulated Deferred Income Taxes			
52	Contributions In Aid of Construction	937,694	937,694	937,694
53	Accumulated Amortization	(756,631)	(714,247)	(671,863)
54	Total Deferred Credits	<u>\$ 466,375</u>	<u>\$ 521,864</u>	<u>\$ 609,243</u>
55				
56	Total Liabilities & Common Equity	<u><u>\$ 14,273,859</u></u>	<u><u>\$ 14,395,845</u></u>	<u><u>\$ 14,486,609</u></u>
57				
58				
59				
60	<u>SUPPORTING SCHEDULES:</u>		<u>RECAP SCHEDULES:</u>	
61	Workpapers/Trial Balance Mapping Water and Sewer tjb.xls		A-3	
62				

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Comparative Income Statements

Exhibit  
Schedule E-2  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2010	Prior Year Ended 12/31/2009	Prior Year Ended 12/31/2008
1	<b>Revenues</b>			
2	Flat Rate Revenues	\$ 2,955,870	\$ 2,958,971	\$ 2,948,589
3	Metered Revenues	93,356	150,408	159,533
4	Other Wastewater Revenues	42,030	4,330	12,670
5	<b>Total Revenues</b>	<b>\$ 3,091,256</b>	<b>\$ 3,113,709</b>	<b>\$ 3,120,792</b>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 345,644	\$ 299,910	\$ 291,830
8	Salaries and Wages - Officers and Directors	90,294	90,294	90,571
9	Employee Pensions and Benefits	115,720	107,405	99,843
10	Purchased Power	105,351	136,258	147,637
11	Chemicals	84,059	103,489	85,909
12	Materials and Supplies	184,532	130,158	129,343
13	Office Supplies and Expense	188,906	238,700	231,214
14	Contractual Services - Engineering	20,305	-	-
15	Contractual Services - Accounting	3,067	3,709	2,940
16	Contractual Services - Legal	108	3,879	-
17	Contractual Services - Other	61,500	63,900	58,800
18	Contractual Services - Testing	15,729	13,614	12,567
19	Rents - Equipment	698	450	450
20	Transportation Expenses	28,808	21,777	29,472
21	Insurance - Vehicle	3,067	2,905	1,268
22	Insurance - General Liability	20,916	38,057	28,061
23	Insurance - Worker's Comp	222	264	240
24	Regulatory Commission Expense	-	-	-
25	Regulatory Commission Expense - Rate Case	-	-	-
26	Bad Debt Expense	9,509	10,260	6,898
27	Miscellaneous Expense	2,174	2,541	1,700
28	Depreciation & Amortization Expense	702,524	757,553	770,492
29	Taxes Other Than Income	10,449	10,794	10,436
30	Property Taxes	164,773	158,553	152,435
31	Income Tax	-	-	-
32		-	-	-
33	<b>Total Operating Expenses</b>	<b>\$ 2,158,356</b>	<b>\$ 2,194,470</b>	<b>\$ 2,152,104</b>
34	<b>Operating Income</b>	<b>\$ 932,900</b>	<b>\$ 919,239</b>	<b>\$ 968,688</b>
35	<b>Other Income (Expense)</b>			
36	Interest Income	97	158	12,618
37	Other Income	52	37	26
38	Interest Expense	(487,087)	(520,074)	(550,887)
39	Other Expense	(1,639)	(1,013)	(60)
40	Gain/Loss Sale of Fixed Assets	-	-	1,400
41	<b>Total Other Income (Expense)</b>	<b>\$ (488,577)</b>	<b>\$ (520,892)</b>	<b>\$ (536,903)</b>
42	<b>Net Profit (Loss)</b>	<b>\$ 444,324</b>	<b>\$ 398,348</b>	<b>\$ 431,785</b>

SUPPORTING SCHEDULES:

Workpapers/Trial Balance Mapping Water and Sewer tjb.xls

RECAP SCHEDULES:

A-2

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Comparative Statements of Cash Flows

Exhibit  
Schedule E-3  
Page 1  
Witness: Bourassa

Line No.	Test Year Ended 12/31/2010	Prior Year Ended 12/31/2009	Prior Year Ended 12/31/2008
1			
2			
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SUPPORTING SCHEDULES:  
Workpapers/cashflow sewer.xls

RECAP SCHEDULES:  
A-5



Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Statement of Changes in Stockholder's Equity

Exhibit  
Schedule E-4  
Page 1  
Witness: Bourassa

Line  
No.

		Common Stock	Additional Paid-In-Capital	Retained Earnings	Total
1					
2					
3					
4	Balance, December 31, 2007	\$ 72,624	\$ 4,037,614	\$ 1,887,682	\$ 5,997,920
5	Addnl Paid In Capital Adjustment				-
6	Distributions/Dividends			-	-
7	Rounding				-
8	Net Income			431,785	431,785
9					
10	Balance, December 31, 2008	\$ 72,624	\$ 4,037,614	\$ 2,319,466	\$ 6,429,704
11	Addnl Paid In Capital		-		-
12	Distributions/Dividends			-	-
13	Rounding				-
14	Net Income			398,348	398,348
15					
16	Balance, December 31, 2009	\$ 72,624	\$ 4,037,614	\$ 2,717,814	\$ 6,828,052
17	Addnl Paid In Capital				-
18	Distributions/Dividends			-	-
19	Rounding				-
20	Net Income			444,324	444,324
21					
22	Balance, December 31, 2010	\$ 72,624	\$ 4,037,614	\$ 3,162,137	\$ 7,272,375

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29 SUPPORTING SCHEDULES:

RECAP SCHEDULES:  
E-1

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**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Detail of Plant in Service

Exhibit  
Schedule E-5  
Page 1  
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2009	Plant Additions, Reclassifications or Retirements	Plant Balance at 12/31/2010
1					
2	351	Organization Cost	\$ -	\$ -	\$ -
3	352	Franchise Cost		-	
4	353	Land and Land Rights	92,008	-	92,008
5	354	Structures & Improvements	5,421	3,479	8,901
6	355	Power Generation Equipment		-	
7	360	Collection Sewers - Force	1,526,701	62,307	1,589,008
8	361.1	Collection Sewers - Gravity	5,919,663	73,351	5,993,014
9	361.2	Manholes & Cleanouts		-	
10	362	Special Collecting Structures		-	
11	363	Servics to Customers	628,785	-	628,785
12	364	Flow Measuring Devices		-	
13	365	Flow Measuring Installations		-	
14	366	Reuse Services		-	
15	367	Reuse Meters and Meter Installations		-	
16	370	Receiving Wells		-	
17	371.1	Pumping Equipment - Lift Stations		-	
18	371.2	Other Pumping Equipment		-	
19	371.3	Pumping Equipment - Recharge Wells		-	
20	374	Reuse Distribution Reservoirs		-	
21	375	Reuse Transmission and Distribution		-	
22	380	Treatment & Disposal Equipment	10,583,267	72,476	10,655,743
23	381	Plant Sewers		-	
24	382	Outfall Sewer Lines	536,196	2,243	538,439
25	389	Other Plant & Misc Equipment	327,190	14,028	341,218
26	390	Office Furniture & Equipment		-	
27	390.1	Computers & Software		-	
28	391	Transportation Equipment		-	
29	392	Stores Equipment		-	
30	393	Tools, Shop & Garage Equipment		-	
31	394	Laboratory Equipment		-	
32	395	Power Operated Equipment		-	
33	396	Communication Equipment		-	
34	397	Miscellaneous Equipment		-	
35	398	Other Tangible Plant		-	
36		Post-in-service AFUDC	716,722		716,722
37				-	
38		Rounding			-
39		TOTAL WATER PLANT	<u>\$ 20,335,953</u>	<u>\$ 227,885</u>	<u>\$ 20,563,838</u>

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41 SUPPORTING SCHEDULES  
42 Workpapers/Trial Balance Mapping Water and Sewer tjb.xls  
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RECAP SCHEDULES:  
A-4  
E-1

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Operating Statistics

Exhibit  
Schedule E-7  
Page 1  
Witness: Bouras

Line No.		Test Year Ended <u>12/31/2010</u>	Prior Year Ended <u>12/31/2009</u>	Prior Year Ended <u>12/31/2008</u>
1	<u>WATER STATISTICS:</u>			
2				
3				
4				
5	Gallons Treated (in Thousands)	390,108	387,475	392,907
6				
7				
8				
9	Sewer Revenues from Customers:	\$ 2,955,870	\$ 2,958,971	\$ 2,948,589
10				
11				
12				
13				
14	Year End Number of Customers	10,058	10,049	10,187
15				
16				
17	Annual Gallons Treated (in Thousands)			
18	Per Year End Customer	38.8	38.6	38.6
19				
20				
21				
22	Annual Revenue per Year End Customer	\$ 293.88	\$ 294.45	\$ 289.45
23				
24	Pumping Cost Per 1,000 Gallons	\$ 0.2701	\$ 0.3517	\$ 0.3758
25				

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Taxes Charged to Operations

Exhibit  
Schedule E-8  
Page 1  
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2010	Prior Year Ended 12/31/2009	Prior Year Ended 12/31/2008
1	Description			
2				
3	State Income Taxes	\$ -	\$ -	\$ -
4	Federal Income Taxes	-	-	-
5	Payroll Taxes	619	578	616
6	Property Taxes	164,773	158,553	152,435
7				
8	Totals	<u>\$ 165,392</u>	<u>\$ 159,131</u>	<u>\$ 153,051</u>
9				
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**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Notes To Financial Statements

Exhibit  
Schedule E-9  
Page 1  
Witness: Bourassa

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See attached audited financial statements.

PIMA UTILITY COMPANY

FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

B A R R Y & M O O R E , P . C .

C E R T I F I E D P U B L I C A C C O U N T A N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Pima Utility Company

We have audited the accompanying balance sheets of *Pima Utility Company* as of December 31, 2010 and 2009, and the related statements of income, capitalization and cash flows for the years then ended. These financial statements are the responsibility of the management of *Pima Utility Company*. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Pima Utility Company* as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 22, 2011

*Barry & Moore, P.C.*

PIMA UTILITY COMPANY

BALANCE SHEETS  
DECEMBER 31, 2010 AND 2009

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
PLANT IN SERVICE AND UNDER CONSTRUCTION, NET	\$ 21,540	\$ 21,999
CURRENT ASSETS:		
Cash	169	92
Service customers receivable	479	431
Receivable from affiliate	872	1,835
Other assets	<u>0</u>	<u>2</u>
Total current assets	1,520	2,360
RESTRICTED FUNDS	2,425	957
DEFERRED CHARGES	<u>1,796</u>	<u>1,855</u>
	<u>\$ 27,281</u>	<u>\$ 27,171</u>
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 335	\$ 247
Accrued liabilities	455	454
Current portion of bonds payable	<u>505</u>	<u>470</u>
Total current liabilities	1,295	1,171
BONDS PAYABLE, NET OF CURRENT PORTION	5,620	6,125
ADVANCES IN AID OF CONSTRUCTION	660	683
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>274</u>	<u>335</u>
Total liabilities	<u>7,849</u>	<u>8,314</u>
CAPITALIZATION:		
Common stock; \$1 par value; 10,000,000 shares authorized; 180,041 shares issued and outstanding	180	180
Additional paid-in capital	10,801	10,801
Retained earnings	<u>8,451</u>	<u>7,876</u>
Total capitalization	<u>19,432</u>	<u>18,857</u>
	<u>\$ 27,281</u>	<u>\$ 27,171</u>

See accompanying notes and auditors' report.



PIMA UTILITY COMPANY

STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
REVENUE:		
Water	\$ 1,658	\$ 1,711
Wastewater	2,956	2,959
Irrigation	411	486
Excess capacity	1	2
Establishment fees	1	2
Other income	<u>48</u>	<u>9</u>
Total revenue	<u>5,075</u>	<u>5,169</u>
OPERATING EXPENSES:		
Salaries and employee benefits	931	827
Electricity	334	387
Repairs and maintenance	514	417
Chemicals	101	118
Testing, fees and permits	85	76
Insurance	52	82
Property taxes	259	257
Professional services	59	31
Administrative services	105	105
Other expense	<u>141</u>	<u>152</u>
Total operating expenses	<u>2,581</u>	<u>2,452</u>
Income before depreciation, amortization and interest	2,494	2,717
NON-OPERATING EXPENSES:		
Depreciation	1,148	1,188
Amortization	32	32
Interest expense, net	<u>439</u>	<u>399</u>
NET INCOME	<u>\$ 875</u>	<u>\$ 1,098</u>

*See accompanying notes and auditors' report.*

PIMA UTILITY COMPANY

STATEMENTS OF CAPITALIZATION  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

*In thousands*

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL CAPITALIZATION</u>
BALANCES, December 31, 2008	\$ 180	\$ 10,801	\$ 10,218	\$ 21,199
NET INCOME	0	0	1,098	1,098
DISTRIBUTIONS	<u>0</u>	<u>0</u>	<u>(3,440)</u>	<u>(3,440)</u>
BALANCES, December 31, 2009	\$ 180	\$ 10,801	\$ 7,876	\$ 18,857
NET INCOME	0	0	875	875
DISTRIBUTIONS	<u>0</u>	<u>0</u>	<u>(300)</u>	<u>(300)</u>
BALANCES, December 31, 2010	<u>\$ 180</u>	<u>\$ 10,801</u>	<u>\$ 8,451</u>	<u>\$ 19,432</u>

*See accompanying notes and auditors' report.*

PIMA UTILITY COMPANY

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ <u>875</u>	\$ <u>1,098</u>
Adjustments to reconcile net income to net cash flows from operating activities-		
Amortization of bond issue costs	26	26
Depreciation and amortization	1,181	1,220
Loss on sale of assets	1	0
(Increase) decrease in-		
Service customers receivable	(48)	(11)
Other assets	2	5
Increase (decrease) in-		
Accounts payable	88	91
Accrued liabilities	<u>1</u>	<u>(34)</u>
Total adjustments	<u>1,251</u>	<u>1,297</u>
Net cash flows from operating activities	<u>2,126</u>	<u>2,395</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted funds	(1,468)	255
Decrease in receivable from affiliate	963	2,013
Plant additions	<u>(751)</u>	<u>(751)</u>
Net cash flows from investing activities	<u>(1,256)</u>	<u>1,517</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bonds payable	(470)	(440)
Advances in aid of construction	(23)	(84)
Distributions	<u>(300)</u>	<u>(3,440)</u>
Net cash flows from financing activities	<u>(793)</u>	<u>(3,964)</u>
INCREASE (DECREASE) IN CASH	77	(52)
CASH, beginning of year	<u>92</u>	<u>144</u>
CASH, end of year	<u>\$ 169</u>	<u>\$ 92</u>

*See accompanying notes and auditors' report.*

PIMA UTILITY COMPANY

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business Activity-

Pima Utility Company (Company), an Arizona corporation organized in 1972, provides water and wastewater services to substantially all of the homes in the Sun Lakes retirement community.

The rates for water and wastewater services are authorized by the Arizona Corporation Commission.

Recognition of Revenue and Expenses-

Revenue and expenses are recognized on the accrual method. Under this method, revenue is recognized when earned rather than when collected, and expenses are recognized when incurred rather than when paid.

Income Taxes-

As permitted by the *Income Taxes* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Company evaluates all tax positions as required by the *Contingencies* topic of the FASB ASC, which requires a more likely-than not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in the Company's tax return. Management believes the tax positions taken on the Company's tax returns are fairly stated. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2006.

The Company and its stockholders have elected to be taxed as an S corporation. In lieu of corporate income taxes, the stockholders are personally taxed on the Company's taxable income. Therefore, no provision or liability for income taxes has been included in these financial statements.

Plant in Service-

Plant in service is stated at original cost. All water assets are depreciated on the straight-line method at 3% annually. Wastewater assets are depreciated on the straight-line method over the following useful lives-

Collection system, manholes and cleanouts and service laterals	50 years
Lift stations	10 - 28 years
Treatment and disposal systems	20 years
Structures and improvements	4 - 20 years
Equipment	5 - 10 years
Effluent lines	10 - 50 years

Repairs and maintenance to plant in service are generally expensed as incurred. Expenditures determined to represent additions and improvements are capitalized.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Charges-

Deferred charges represent costs amortizable pursuant to rulings by the Arizona Corporation Commission over the following lives-

Bond issue costs	23.5 years
Allowance for funds used during construction	22 years
Deferred operating costs for 1996 and 1997	5 years
Deferred operating costs for 1998 and 1999	Pending
Rate hearing costs	Pending

Estimates-

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Long-Lived Assets-

The Company periodically evaluates the carrying value of the long-lived assets in accordance with the FASB ASC. Under the FASB ASC, long-lived assets and certain identifiable intangible assets to be held and used in operations are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company does not believe impairment exists at December 31, 2010.

Supplemental Cash Flow Information-

Interest paid totaled \$478,000 and \$510,000 in 2010 and 2009, respectively.

(2) PLANT IN SERVICE AND UNDER CONSTRUCTION, NET:

Plant in service and under construction, net consists of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Construction work-in progress	\$ <u>20</u>	\$ <u>0</u>
Land	<u>189</u>	<u>189</u>
Wastewater:		
Collection system	4,201	4,201
Manholes and cleanouts	1,792	1,718
Lift stations	1,589	1,527
Treatment and disposal systems	10,656	10,583
Service laterals	629	629
Structures and improvements	9	5
Equipment	341	327
Effluent lines	<u>538</u>	<u>536</u>
	<u>19,755</u>	<u>19,526</u>
Water:		
Mains	3,057	3,057
Services	4,499	4,321
Hydrants	892	892
Tanks	2,708	2,679
Water supply	1,789	1,692
Meters	1,011	975
Pumps	830	731
Equipment	730	700
Structures and improvements	<u>2,292</u>	<u>2,285</u>
	<u>17,808</u>	<u>17,332</u>
Total plant in service and under construction	37,772	37,047
Less accumulated depreciation	<u>16,232</u>	<u>15,048</u>
	<u>\$ 21,540</u>	<u>\$ 21,999</u>

(3) RESTRICTED FUNDS:

Restricted funds consist of investments held by a trustee to comply with the requirements of the Trust Indenture related to the Industrial Development Authority Bonds.

The restricted funds are invested in money markets and are recorded at cost in the following trustee accounts-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Reserve fund	\$ 953	\$ 952
Bond fund	<u>1,472</u>	<u>5</u>
	<u>\$ 2,425</u>	<u>\$ 957</u>

(4) DEFERRED CHARGES:

Deferred charges consist of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Bond issue costs, net of amortization	\$ 221	\$ 247
Allowance for funds used during construction, net of amortization	360	393
Deferred operating costs for 1996 and 1997	1	1
Deferred operating costs for 1998 and 1999	1,049	1,049
Rate hearing costs	<u>165</u>	<u>165</u>
	<u>\$ 1,796</u>	<u>\$ 1,855</u>

Pursuant to an order from the Arizona Corporation Commission, from 1996 to 1999, the Company was authorized to defer 30% of the incremental operating costs of the new wastewater treatment facilities.

(5) ACCRUED LIABILITIES:

Accrued liabilities consist of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Payroll and taxes	\$ 67	\$ 54
Sales tax	27	23
Property taxes	129	128
Regulatory taxes	10	10
Interest	<u>222</u>	<u>239</u>
	<u>\$ 455</u>	<u>\$ 454</u>

(6) BONDS PAYABLE:

In December, 1995, the Company received \$10,300,000 from the sale of Industrial Development Authority Bonds of Maricopa County, which financed the construction of the wastewater treatment facility.

The bonds bear interest at 7.25% and require annual debt service of approximately \$951,000 through July, 2019.

Annual principal payments are as follows-

<u>Year Ending December 31</u>	<i>In thousands</i>
2011	\$ 505
2012	545
2013	580
2014	625
2015	670
Thereafter	<u>3,200</u>
	<u>\$ 6,125</u>

(7) ADVANCES AND CONTRIBUTIONS IN AID OF CONSTRUCTION:

The advances in aid of construction contracts provide that a percentage of gross revenues from each applicable unit over a specified period will be paid to reimburse the customer for the cost of the water system.

Any unrefunded portion upon the contract expiration is transferred to contributions in aid of construction.

(8) INTEREST EXPENSE, NET:

Interest expense, net consists of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Interest income	\$ 48	\$ 121
Interest expense	(461)	(494)
Amortization of bond issue costs	<u>(26)</u>	<u>(26)</u>
	<u>\$ (439)</u>	<u>\$ (399)</u>



(9) FAIR VALUE OF FINANCIAL INSTRUMENTS:

In accordance with the *Fair Value Measurements and Disclosures* topic of the FASB ASC, the carrying amount reported in the balance sheet for current assets, restricted funds and current liabilities approximate fair values due to the short maturity of these instruments.

At December 31, 2010, the fair value of long-term debt was equal to the carrying amount.

(10) TRANSACTIONS WITH RELATED PARTIES:

On an ongoing basis, Pima Utility Company engages in certain business activities with affiliates which arise through the normal course of business.

The Company has an agreement with an affiliated developer where the developer pays a monthly fee to reserve capacity of the new wastewater treatment plant for its undeveloped lots. The Company earned \$1,000 and \$2,000 during 2010 and 2009, respectively, pursuant to this agreement.

The Company provides water services to affiliates for construction activity and golf courses. Revenue earned from these affiliates during 2010 and 2009 was \$59,000 and \$211,000, respectively.

The Company paid \$105,000 in 2010 and 2009, respectively, to an affiliate for administrative and accounting services.

The Company also advances excess funds to an affiliate. The advances are payable on demand and provide for monthly interest at the affiliates borrowing rate. The Company earned \$48,000 and \$120,000 of interest on the advances during 2010 and 2009, respectively. At December 31, 2010 and 2009, the outstanding receivable from affiliate was \$872,000 and \$1,835,000, respectively.

(11) RETIREMENT PLAN AND TRUST:

The Company and affiliated entities have a multi-employer trust profit sharing plan under Section 401 and 401(K) of the Internal Revenue Code. The Plan and Trust provides for retirement, disability and accidental benefits for eligible employees. The Company matches employee contributions at a rate of 25%. The Plan and Trust also provides for additional contributions by the employer, at management's discretion. As of December 31, 2010, the Company had no liability to the Plan and Trust for matching or additional contributions. The Company contributed approximately \$9,000 in 2010 and 2009, respectively to the Plan.

(12) CONCENTRATIONS OF CREDIT RISK:

The *Risk and Uncertainties* topic of the FASB ASC requires certain disclosures relating to concentrations and the general risk associated with those concentrations.

Substantially all customers reside within the Sun Lakes community.

(13) SUBSEQUENT EVENTS:

Management has evaluated all subsequent events through the date the financial statements were available to be issued on April 22, 2011. No subsequent events occurred during this period which require adjustment to or disclosure in the financial statements.

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Projected Income Statements - Present & Proposed Rates

Exhibit  
Schedule F-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2011	At Proposed Rates Year Ended 12/31/2011
1	<b>Revenues</b>			
2	Metered Water Revenues	\$ 2,955,870	\$ 2,997,389	\$ 3,688,599
3	Unmetered Water Revenues	93,356	93,356	93,356
4	Other Water Revenues	42,030	6,030	6,030
5		<u>\$ 3,091,256</u>	<u>\$ 3,096,775</u>	<u>\$ 3,787,985</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 345,644	\$ 345,644	\$ 345,644
8	Salaries and Wages - Officers and Directors	90,294	90,294	90,294
9	Employee Pensions and Benefits	115,720	115,720	115,720
10	Purchased Power	105,351	134,337	134,337
11	Chemicals	84,059	84,059	84,059
12	Materials and Supplies	184,532	184,532	184,532
13	Office Supplies and Expense	188,906	188,906	188,906
14	Contractual Services - Engineering	20,305	20,305	20,305
15	Contractual Services - Accounting	3,067	3,067	3,067
16	Contractual Services - Legal	108	108	108
17	Contractual Services - Other	61,500	61,500	61,500
18	Contractual Services - Water Testing	15,729	15,729	15,729
19	Rents - Equipment	698	698	698
20	Transportation Expenses	28,808	28,808	28,808
21	Insurance - Vehicle	3,067	3,067	3,067
22	Insurance - General Liability	20,916	20,916	20,916
23	Insurance - Worker's Comp	222	222	222
24	Regulatory Commission Expense	-	-	-
25	Regulatory Commission Expense - Rate Case	-	50,000	50,000
26	Bad Debt Expense	9,509	9,509	9,509
27	Miscellaneous Expense	2,174	2,174	2,174
28	Depreciation Expense	702,524	1,010,700	1,010,700
29	Taxes Other Than Income	10,449	10,449	10,449
30	Property Taxes	164,773	125,916	135,183
31	Income Tax	-	85,405	275,081
32				
33	<b>Total Operating Expenses</b>	<u>\$ 2,158,356</u>	<u>\$ 2,592,066</u>	<u>\$ 2,791,008</u>
34	<b>Operating Income</b>	<u>\$ 932,900</u>	<u>\$ 504,709</u>	<u>\$ 996,977</u>
35	<b>Other Income (Expense)</b>			
36	Interest Income	97	97	97
37	Other income	52	52	52
38	Interest Expense	(487,087)	(220,131)	(220,131)
39	Other Expense	(1,639)	(1,639)	(1,639)
40	Gain/Loss Sale of Fixed Assets	-	-	-
41	<b>Total Other Income (Expense)</b>	<u>\$ (488,577)</u>	<u>\$ (221,621)</u>	<u>\$ (221,621)</u>
42	<b>Net Profit (Loss)</b>	<u>\$ 444,324</u>	<u>\$ 283,088</u>	<u>\$ 775,356</u>

SUPPORTING SCHEDULES:

C-1

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Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Projected Statements of Changes in Financial Position  
Present and Proposed Rates

Exhibit  
Schedule F-2  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2010	At Present Rates Year Ended 12/31/2011	At Proposed Rates Year Ended 12/31/2011
1				
2				
3				
4				
5	Cash Flows from Operating Activities			
6	Net Income	\$ 444,324	\$ 220,163	\$ 712,431
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	702,524	1,010,700	1,010,700
10	Other	-		
11	Changes in Certain Assets and Liabilities:			
12	Accounts Receivable	(9,241)		
13	Unbilled Revenues	-		
14	Materials and Supplies Inventory	-		
15	Prepaid Expenses	-		
16	Deferred Charges	(1,467,236)		
17	Notes Receivable	1,115,641		
18	Accounts Payable	(27,566)		
19	Intercompany payable	-		
20	Customer Meter Deposits	(17,038)		
21	Taxes Payable	3,156		
22	Other assets and liabilities	(39,374)		
23	Net Cash Flow provided by Operating Activities	<u>\$ 705,191</u>	<u>\$ 1,230,863</u>	<u>\$ 1,723,131</u>
24	Cash Flow From Investing Activities:			
25	Capital Expenditures	(248,075)	(315,000)	(315,000)
26	Plant Held for Future Use	-		
27	Changes in debt reserve fund	-		
28	Net Cash Flows from Investing Activities	<u>\$ (248,075)</u>	<u>\$ (315,000)</u>	<u>\$ (315,000)</u>
29	Cash Flow From Financing Activities			
30	Change in Restricted Cash	-		
31	Change in net amounts due to parent and affiliates	-		
32	Net Receipt contributions in aid of construction	-	-	-
33	Net receipts of advances in aid of construction	(13,104)	(13,104)	(13,104)
34	Repayments of Long-Term Debt	(470,000)	(505,000)	(505,000)
35	Dividends Paid	-	-	-
36	Deferred Financing Costs	25,988	-	-
37	Paid in Capital	-	-	-
38	Net Cash Flows Provided by Financing Activities	<u>\$ (457,116)</u>	<u>\$ (518,104)</u>	<u>\$ (518,104)</u>
39	Increase(decrease) in Cash and Cash Equivalents	(0)	397,759	890,027
40	Cash and Cash Equivalents at Beginning of Year	0	0	0
41	Cash and Cash Equivalents at End of Year	<u>\$ 0</u>	<u>\$ 397,759</u>	<u>\$ 890,027</u>

SUPPORTING SCHEDULES:

E-3

Exhibit  
Schedule F-3  
Page 1  
Witness: Bourassa

Line No.	Account	Test Year	2011	2012	2013
1	Number	Plant Asset:			
2	351	Organization Cost	\$ -	\$ -	\$ -
3	352	Franchise Cost	-	-	-
4	353	Land and Land Rights	-	-	-
5	354	Structures & Improvements	3,479	10,000	10,000
6	355	Power Generation Equipment	-	-	-
7	360	Collection Sewers - Force	62,307	65,000	65,000
8	361.1	Collection Sewers - Gravity	73,351	5,000	5,000
9	361.2	Manholes & Cleanouts	-	-	-
10	362	Special Collecting Structures	-	-	-
11	363	Services to Customers	-	-	-
12	364	Flow Measuring Devices	-	-	-
13	365	Flow Measuring Installations	-	-	-
14	366	Reuse Services	-	-	-
15	367	Reuse Meters and Meter Installations	-	-	-
16	370	Receiving Wells	-	-	-
17	371.1	Pumping Equipment - Lift Stations	-	500,000	500,000
18	371.2	Other Pumping Equipment	-	-	-
19	371.3	Pumping Equipment - Recharge Wells	-	-	-
20	374	Reuse Distribution Reservoirs	-	-	-
21	375	Reuse Transmission and Distribution	-	-	-
22	380	Treatment & Disposal Equipment	72,476	220,000	100,000
23	381	Plant Sewers	-	-	-
24	382	Outfall Sewer Lines	2,243	250,000	250,000
25	389	Other Plant & Misc Equipment	14,028	15,000	15,000
26	390	Office Furniture & Equipment	-	-	-
27	390.1	Computers & Software	-	-	-
28	391	Transportation Equipment	-	-	-
29	392	Stores Equipment	-	-	-
30	393	Tools, Shop & Garage Equipment	-	-	-
31	394	Laboratory Equipment	-	-	-
32	395	Power Operated Equipment	-	-	-
33	396	Communication Equipment	-	-	-
34	397	Miscellaneous Equipment	-	-	-
35	398	Other Tangible Plant	-	-	-
36			-	-	-
37	Total		\$ 227,885	\$ 315,000	\$ 945,000

**Pima Utility Company - Wastewater Division**  
Test Year Ended December 31, 2010  
Assumptions Used in Rate Filing

Exhibit  
Schedule F-4  
Page 1  
Witness: Bourassa

Line

No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue modified for ratemaking.
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
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Pima Utility Company - Wastewater Division  
Revenue Summary  
Test Year Ended December 31, 2010

Exhibit  
Schedule H-1  
Page 1  
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues		
1	5/8x3/4 Inch	Residential	\$ 2,658,546	\$ 3,250,073	\$ 591,527	22.25%	85.85%	85.80%		
2	1 Inch	Residential	145,477	177,846	32,369	22.25%	4.70%	4.69%		
3										
4	5/8x3/4 Inch	Commercial	\$ 6,410	\$ 7,836	\$ 1,426	22.25%	0.21%	0.21%		
5	3/4 Inch	Commercial	1,272	1,555	283	22.25%	0.04%	0.04%		
6	1 Inch	Commercial	16,909	20,671	3,762	22.25%	0.55%	0.55%		
7	1 1/2 Inch	Commercial	12,672	15,491	2,819	22.25%	0.41%	0.41%		
8	2 Inch	Commercial	115,770	141,529	25,759	22.25%	3.74%	3.74%		
9										
10	Effluent 1		44,582	55,341	10,760	24.13%	1.44%	1.46%		
11	Effluent 2		76,930	94,127	17,196	22.35%	2.48%	2.48%		
12										
13	Subtotals of Revenues		\$ 3,078,568	\$ 3,764,469	\$ 685,901	22.28%	99.41%	99.38%	Additional Bills	Additional Gallons Treated
14	Revenue Annualizations:									
15	5/8x3/4 Inch	Residential	\$ (1,046)	\$ (1,278)	\$ (233)	22.25%	-0.03%	-0.03%	(46)	(138,000)
16	1 Inch	Residential	1,899	2,321	422	22.25%	0.06%	0.06%	32	96,000
17										
18	5/8x3/4 Inch	Commercial	\$ 136	\$ 167	\$ 30	22.25%	0.00%	0.00%	6	18,000
19	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%	0	-
20	1 Inch	Commercial	(1,246)	(1,523)	(277)	22.25%	-0.04%	-0.04%	(21)	(63,000)
21	1 1/2 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%	-	-
22	2 Inch	Commercial	1,124	1,374	250	22.25%	0.04%	0.04%	6	18,000
23										
24	Effluent - water sales recovered effluent		12,496	15,081	2,585	20.69%	0.40%	0.40%	12	
25										
26										
27	Subtotal Revenue Annualization		13,363	16,141	2,778	20.79%	0.43%	0.52%	(11)	(69,000)
28										
29	Total Revenues w/ Annualization		\$ 3,091,931	\$ 3,780,610	\$ 688,679	22.27%	99.84%	99.81%		
30	Misc Revenues		6,030	6,030	-	0.00%	0.19%	0.16%		
31	Reconciling Amount		(1,186)	1,345	2,530	-213.32%	-0.04%	0.04%		
32	Total Revenues		\$ 3,096,775	\$ 3,787,985	\$ 691,209	22.32%	100.00%	100.00%		
33										
34										
35	Reconciliation to GL Revenues									
36	Metered Revenues Per GL		\$ 3,049,226							
37	Adjustments Irrigation Revenues									
38	recorded on sewer books		(2,314)							
39	Effluent 2 Bill Correction <sup>1</sup>		28,156							
40	Adjusted Metered Revenues		\$ 3,077,382							
41										
42	Bill Count Rev. before Annualization		3,078,568							
43	Difference		\$ (1,186)							
44	Effluent 2 Billings at incorrect rates									
45	Unreconciled Difference		\$ (1,186)							
46	% Difference		-0.04%							
47	Tolerance (+/- 0.5%)		\$ 15,387							
48	Acceptable		Yes							
49										

50 <sup>1</sup> Effluent 2 customers were charged at the Water Division irrigation rate of \$0.36 per 1,000 gallons during the test year. These additional revenues are included in C-2 Adjustment 4.

Pima Utility Company - Wastewater Division  
 Analysis of Revenue by Detailed Class  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-2  
 Page 1  
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2010	Average Consumption	Average Bill		Proposed Increase		Percent of Customers
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
1	5/8x3/4 Inch Residential	9,747	-	\$ 22.73	\$ 27.79	\$ 5.06	22.25%	96.85%
2	1 Inch Residential	204	-	59.33	72.53	13.20	22.25%	2.03%
3								
4	5/8x3/4 Inch Commercial	24	-	\$ 22.73	\$ 27.79	\$ 5.06	22.25%	0.23%
5	3/4 Inch Commercial	3	-	35.33	43.19	7.86	22.25%	0.03%
6	1 Inch Commercial	24	-	59.33	72.53	13.20	22.25%	0.24%
7	1 1/2 Inch Commercial	9	-	117.33	143.44	26.11	22.25%	0.09%
8	2 Inch Commercial	52	-	187.33	229.01	41.68	22.25%	0.51%
9								
10	Irrigation	2	4,059,941	\$ 2,476.77	\$ 3,074.52	\$ 597.75	24.13%	0.01%
11								
12								
13								
14								
15								
16								
17								
18	Totals	<u>10,063</u>						<u>100.00%</u>
19								
20	Actual Year End Number							
21	of Customers:	<u>10,058</u>						
22								
23								
24								
25								





Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Present and Proposed Rates

Exhibit  
Schedule H-3  
Page 1

Line No.		Present Rates	Proposed Rates	Change	Percent Change
1	<u>Sewer Services</u>				
2	5/8x3/4 Inch	\$ 22.73	\$ 27.79	\$ 5.06	22.25%
3	3/4 Inch	35.33	43.19	7.86	22.25%
4	1 Inch	59.33	72.53	13.20	22.25%
5	1 1/2 Inch	117.33	143.44	26.11	22.25%
6	2 Inch	187.33	229.01	41.68	22.25%
7	3 Inch	NT	444.60	444.60	
8	4 Inch	NT	694.69	694.69	
9	6 Inch	NT	1,389.37	1,389.37	
10	<u>Effluent Sales</u>				
11	Monthly Minimum	180.00	232.56	52.56	29.20%
12	Gallons In Minimum	100,000	-		
13	Charge per 1,000 gallons	\$ 0.58	\$ 0.70	0.12	20.69%
14					
15	<u>Recovered Effluent Sales</u>				
16	Monthly Minimum	NT	\$ 232.56		
17	Gallons In Minimum	NT	\$ -		
18	Charge per 1,000 gallons	NT	\$ 0.70		
19					
20					
21	<u>Service Charges</u>				
22	Impact Fee (new connection one-time only)	\$ 260.00	NT		
23	Establishment Fee	NT	\$ 25.00		
24	Reestablishment (within 12 months)	NT	*		
25	Deferred payment (per month)	1.50%	1.50%		
26	Deposit	**	**		
27	Deposit Interest	**	**		
28	NSF check	\$ 15.00	\$ 15.00		
29	Late payment fee (per month)***	1.50%	1.50%		
30	Disconnect/Reconnect (delinquent account)	\$ 500.00	NT		
31	Reconnection (Delinquent)	NT	\$ 25.00		
32	After Hours Servie Charge	NT	\$ 50.00		
33					
34	* Number of months off the system times the applicable sewer charge.				
35	** Per Commission Rule R14-2-603.B.7 and 603.B.3				
36	*** Late payment chrg based upon balance owing at the end of the billing cycle which is added to next bill.				
37					
38	<sup>1</sup> Recovered effluent was charged at the Water Division irrigation rate of \$0.36 per 1,000 gallons during the test year.				
39					
40	NT = No Tariff				

Pima Utility Company - Wastewater Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Residential 5/8x3/4 Inch Meter  
 Test Year Ended December 31, 2010  
 (Excludes all Revenue Related Taxes)

Exhibit  
 Schedule H-4  
 Page 1  
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 22.73	\$ 27.79	\$ 5.06	22.25%
1,000	22.73	27.79	\$ 5.06	22.25%
2,000	22.73	27.79	\$ 5.06	22.25%
3,000	22.73	27.79	\$ 5.06	22.25%
4,000	22.73	27.79	\$ 5.06	22.25%
5,000	22.73	27.79	\$ 5.06	22.25%
6,000	22.73	27.79	\$ 5.06	22.25%
7,000	22.73	27.79	\$ 5.06	22.25%
8,000	22.73	27.79	\$ 5.06	22.25%
9,000	22.73	27.79	\$ 5.06	22.25%
10,000	22.73	27.79	\$ 5.06	22.25%
12,000	22.73	27.79	\$ 5.06	22.25%
14,000	22.73	27.79	\$ 5.06	22.25%
16,000	22.73	27.79	\$ 5.06	22.25%
18,000	22.73	27.79	\$ 5.06	22.25%
20,000	22.73	27.79	\$ 5.06	22.25%
25,000	22.73	27.79	\$ 5.06	22.25%
30,000	22.73	27.79	\$ 5.06	22.25%
35,000	22.73	27.79	\$ 5.06	22.25%
40,000	22.73	27.79	\$ 5.06	22.25%
45,000	22.73	27.79	\$ 5.06	22.25%
50,000	22.73	27.79	\$ 5.06	22.25%
60,000	22.73	27.79	\$ 5.06	22.25%
70,000	22.73	27.79	\$ 5.06	22.25%
80,000	22.73	27.79	\$ 5.06	22.25%
90,000	22.73	27.79	\$ 5.06	22.25%
100,000	22.73	27.79	\$ 5.06	22.25%

**Present Rates:**  
 Monthly Minimum: \$ 22.73

**Proposed Rates:**  
 Monthly Minimum: \$ 27.79

Average Usage					
-	\$ 22.73	\$ 27.79	\$ 5.06	22.25%	
Median Usage					
-	\$ 22.73	\$ 27.79	\$ 5.06	22.25%	

Pima Utility Company - Wastewater Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Residential 1 Inch Meter  
 Test Year Ended December 31, 2010  
 (Excludes all Revenue Related Taxes)

Exhibit  
 Schedule H-4  
 Page 2  
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 59.33	\$ 72.53	\$ 13.20	22.25%
1,000	59.33	72.53	\$ 13.20	22.25%
2,000	59.33	72.53	\$ 13.20	22.25%
3,000	59.33	72.53	\$ 13.20	22.25%
4,000	59.33	72.53	\$ 13.20	22.25%
5,000	59.33	72.53	\$ 13.20	22.25%
6,000	59.33	72.53	\$ 13.20	22.25%
7,000	59.33	72.53	\$ 13.20	22.25%
8,000	59.33	72.53	\$ 13.20	22.25%
9,000	59.33	72.53	\$ 13.20	22.25%
10,000	59.33	72.53	\$ 13.20	22.25%
12,000	59.33	72.53	\$ 13.20	22.25%
14,000	59.33	72.53	\$ 13.20	22.25%
16,000	59.33	72.53	\$ 13.20	22.25%
18,000	59.33	72.53	\$ 13.20	22.25%
20,000	59.33	72.53	\$ 13.20	22.25%
25,000	59.33	72.53	\$ 13.20	22.25%
30,000	59.33	72.53	\$ 13.20	22.25%
35,000	59.33	72.53	\$ 13.20	22.25%
40,000	59.33	72.53	\$ 13.20	22.25%
45,000	59.33	72.53	\$ 13.20	22.25%
50,000	59.33	72.53	\$ 13.20	22.25%
60,000	59.33	72.53	\$ 13.20	22.25%
70,000	59.33	72.53	\$ 13.20	22.25%
80,000	59.33	72.53	\$ 13.20	22.25%
90,000	59.33	72.53	\$ 13.20	22.25%
100,000	59.33	72.53	\$ 13.20	22.25%

**Present Rates:**  
 Monthly Minimum: \$ 59.33

**Proposed Rates:**  
 Monthly Minimum: \$ 72.53

Average Usage				
-	\$ 59.33	\$ 72.53	\$ 13.20	22.25%
Median Usage				
-	\$ 59.33	\$ 72.53	\$ 13.20	22.25%

Pima Utility Company - Wastewater Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commercial 5/8x3/4 Inch Meter  
 Test Year Ended December 31, 2010  
 (Excludes all Revenue Related Taxes)

Exhibit  
 Schedule H-4  
 Page 3  
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 22.73	\$ 27.79	\$ 5.06	22.25%
1,000	22.73	27.79	\$ 5.06	22.25%
2,000	22.73	27.79	\$ 5.06	22.25%
3,000	22.73	27.79	\$ 5.06	22.25%
4,000	22.73	27.79	\$ 5.06	22.25%
5,000	22.73	27.79	\$ 5.06	22.25%
6,000	22.73	27.79	\$ 5.06	22.25%
7,000	22.73	27.79	\$ 5.06	22.25%
8,000	22.73	27.79	\$ 5.06	22.25%
9,000	22.73	27.79	\$ 5.06	22.25%
10,000	22.73	27.79	\$ 5.06	22.25%
12,000	22.73	27.79	\$ 5.06	22.25%
14,000	22.73	27.79	\$ 5.06	22.25%
16,000	22.73	27.79	\$ 5.06	22.25%
18,000	22.73	27.79	\$ 5.06	22.25%
20,000	22.73	27.79	\$ 5.06	22.25%
25,000	22.73	27.79	\$ 5.06	22.25%
30,000	22.73	27.79	\$ 5.06	22.25%
35,000	22.73	27.79	\$ 5.06	22.25%
40,000	22.73	27.79	\$ 5.06	22.25%
45,000	22.73	27.79	\$ 5.06	22.25%
50,000	22.73	27.79	\$ 5.06	22.25%
60,000	22.73	27.79	\$ 5.06	22.25%
70,000	22.73	27.79	\$ 5.06	22.25%
80,000	22.73	27.79	\$ 5.06	22.25%
90,000	22.73	27.79	\$ 5.06	22.25%
100,000	22.73	27.79	\$ 5.06	22.25%

**Present Rates:**  
 Monthly Minimum: \$ 22.73

**Proposed Rates:**  
 Monthly Minimum: \$ 27.79

Average Usage					
-	\$ 22.73	\$ 27.79	\$ 5.06	22.25%	
Median Usage					
-	\$ 22.73	\$ 27.79	\$ 5.06	22.25%	

Pima Utility Company - Wastewater Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commercial 3/4 Inch Meter  
 Test Year Ended December 31, 2010  
 (Excludes all Revenue Related Taxes)

Exhibit  
 Schedule H-4  
 Page 4  
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 35.33	\$ 43.19	\$ 7.86	22.25%
1,000	35.33	43.19	\$ 7.86	22.25%
2,000	35.33	43.19	\$ 7.86	22.25%
3,000	35.33	43.19	\$ 7.86	22.25%
4,000	35.33	43.19	\$ 7.86	22.25%
5,000	35.33	43.19	\$ 7.86	22.25%
6,000	35.33	43.19	\$ 7.86	22.25%
7,000	35.33	43.19	\$ 7.86	22.25%
8,000	35.33	43.19	\$ 7.86	22.25%
9,000	35.33	43.19	\$ 7.86	22.25%
10,000	35.33	43.19	\$ 7.86	22.25%
12,000	35.33	43.19	\$ 7.86	22.25%
14,000	35.33	43.19	\$ 7.86	22.25%
16,000	35.33	43.19	\$ 7.86	22.25%
18,000	35.33	43.19	\$ 7.86	22.25%
20,000	35.33	43.19	\$ 7.86	22.25%
25,000	35.33	43.19	\$ 7.86	22.25%
30,000	35.33	43.19	\$ 7.86	22.25%
35,000	35.33	43.19	\$ 7.86	22.25%
40,000	35.33	43.19	\$ 7.86	22.25%
45,000	35.33	43.19	\$ 7.86	22.25%
50,000	35.33	43.19	\$ 7.86	22.25%
60,000	35.33	43.19	\$ 7.86	22.25%
70,000	35.33	43.19	\$ 7.86	22.25%
80,000	35.33	43.19	\$ 7.86	22.25%
90,000	35.33	43.19	\$ 7.86	22.25%
100,000	35.33	43.19	\$ 7.86	22.25%

**Present Rates:**  
 Monthly Minimum: \$ 35.33

**Proposed Rates:**  
 Monthly Minimum: \$ 43.19

Average Usage					
-	\$	35.33	\$	43.19	\$ 7.86 22.25%
Median Usage					
-	\$	35.33	\$	43.19	\$ 7.86 22.25%

Pima Utility Company - Wastewater Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commercial 1 Inch Meter  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-4  
 Page 5  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 59.33	\$ 72.53	\$ 13.20	22.25%
1,000	59.33	72.53	\$ 13.20	22.25%
2,000	59.33	72.53	\$ 13.20	22.25%
3,000	59.33	72.53	\$ 13.20	22.25%
4,000	59.33	72.53	\$ 13.20	22.25%
5,000	59.33	72.53	\$ 13.20	22.25%
6,000	59.33	72.53	\$ 13.20	22.25%
7,000	59.33	72.53	\$ 13.20	22.25%
8,000	59.33	72.53	\$ 13.20	22.25%
9,000	59.33	72.53	\$ 13.20	22.25%
10,000	59.33	72.53	\$ 13.20	22.25%
12,000	59.33	72.53	\$ 13.20	22.25%
14,000	59.33	72.53	\$ 13.20	22.25%
16,000	59.33	72.53	\$ 13.20	22.25%
18,000	59.33	72.53	\$ 13.20	22.25%
20,000	59.33	72.53	\$ 13.20	22.25%
25,000	59.33	72.53	\$ 13.20	22.25%
30,000	59.33	72.53	\$ 13.20	22.25%
35,000	59.33	72.53	\$ 13.20	22.25%
40,000	59.33	72.53	\$ 13.20	22.25%
45,000	59.33	72.53	\$ 13.20	22.25%
50,000	59.33	72.53	\$ 13.20	22.25%
60,000	59.33	72.53	\$ 13.20	22.25%
70,000	59.33	72.53	\$ 13.20	22.25%
80,000	59.33	72.53	\$ 13.20	22.25%
90,000	59.33	72.53	\$ 13.20	22.25%
100,000	59.33	72.53	\$ 13.20	22.25%

**Present Rates:**  
 Monthly Minimum: \$ 59.33

**Proposed Rates:**  
 Monthly Minimum: \$ 72.53

Average Usage				
- \$	59.33	\$ 72.53	\$ 13.20	22.25%
Median Usage				
- \$	59.33	\$ 72.53	\$ 13.20	22.25%

Pima Utility Company - Wastewater Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commercial 1.5 Inch Meter  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-4  
 Page 6  
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 117.33	\$ 143.44	\$ 26.11	22.25%
1,000	117.33	143.44	\$ 26.11	22.25%
2,000	117.33	143.44	\$ 26.11	22.25%
3,000	117.33	143.44	\$ 26.11	22.25%
4,000	117.33	143.44	\$ 26.11	22.25%
5,000	117.33	143.44	\$ 26.11	22.25%
6,000	117.33	143.44	\$ 26.11	22.25%
7,000	117.33	143.44	\$ 26.11	22.25%
8,000	117.33	143.44	\$ 26.11	22.25%
9,000	117.33	143.44	\$ 26.11	22.25%
10,000	117.33	143.44	\$ 26.11	22.25%
12,000	117.33	143.44	\$ 26.11	22.25%
14,000	117.33	143.44	\$ 26.11	22.25%
16,000	117.33	143.44	\$ 26.11	22.25%
18,000	117.33	143.44	\$ 26.11	22.25%
20,000	117.33	143.44	\$ 26.11	22.25%
25,000	117.33	143.44	\$ 26.11	22.25%
30,000	117.33	143.44	\$ 26.11	22.25%
35,000	117.33	143.44	\$ 26.11	22.25%
40,000	117.33	143.44	\$ 26.11	22.25%
45,000	117.33	143.44	\$ 26.11	22.25%
50,000	117.33	143.44	\$ 26.11	22.25%
60,000	117.33	143.44	\$ 26.11	22.25%
70,000	117.33	143.44	\$ 26.11	22.25%
80,000	117.33	143.44	\$ 26.11	22.25%
90,000	117.33	143.44	\$ 26.11	22.25%
100,000	117.33	143.44	\$ 26.11	22.25%

**Present Rates:**  
 Monthly Minimum: \$ 117.33

**Proposed Rates:**  
 Monthly Minimum: \$ 143.44

Average Usage				
-	\$ 117.33	\$ 143.44	\$ 26.11	22.25%
Median Usage				
-	\$ 117.33	\$ 143.44	\$ 26.11	22.25%

Pima Utility Company - Wastewater Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Commerical 2 Inch Meter  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-4  
 Page 7  
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 187.33	\$ 229.01	\$ 41.68	22.25%
1,000	187.33	229.01	\$ 41.68	22.25%
2,000	187.33	229.01	\$ 41.68	22.25%
3,000	187.33	229.01	\$ 41.68	22.25%
4,000	187.33	229.01	\$ 41.68	22.25%
5,000	187.33	229.01	\$ 41.68	22.25%
6,000	187.33	229.01	\$ 41.68	22.25%
7,000	187.33	229.01	\$ 41.68	22.25%
8,000	187.33	229.01	\$ 41.68	22.25%
9,000	187.33	229.01	\$ 41.68	22.25%
10,000	187.33	229.01	\$ 41.68	22.25%
12,000	187.33	229.01	\$ 41.68	22.25%
14,000	187.33	229.01	\$ 41.68	22.25%
16,000	187.33	229.01	\$ 41.68	22.25%
18,000	187.33	229.01	\$ 41.68	22.25%
20,000	187.33	229.01	\$ 41.68	22.25%
25,000	187.33	229.01	\$ 41.68	22.25%
30,000	187.33	229.01	\$ 41.68	22.25%
35,000	187.33	229.01	\$ 41.68	22.25%
40,000	187.33	229.01	\$ 41.68	22.25%
45,000	187.33	229.01	\$ 41.68	22.25%
50,000	187.33	229.01	\$ 41.68	22.25%
60,000	187.33	229.01	\$ 41.68	22.25%
70,000	187.33	229.01	\$ 41.68	22.25%
80,000	187.33	229.01	\$ 41.68	22.25%
90,000	187.33	229.01	\$ 41.68	22.25%
100,000	187.33	229.01	\$ 41.68	22.25%

**Present Rates:**  
 Monthly Minimum: \$ 187.33

**Proposed Rates:**  
 Monthly Minimum: \$ 229.01

Average Usage				
-	\$ 187.33	\$ 229.01	\$ 41.68	22.25%
Median Usage				
-	\$ 187.33	\$ 229.01	\$ 41.68	22.25%



Pima Utility Company - Wastewater Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Effluent Sales 1  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-4  
 Page 8  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 180.00	\$ 232.56	\$ 52.56	29.20%
1,000	180.00	233.26	\$ 53.26	29.59%
2,000	180.00	233.96	\$ 53.96	29.98%
3,000	180.00	234.66	\$ 54.66	30.37%
4,000	180.00	235.36	\$ 55.36	30.76%
5,000	180.00	236.06	\$ 56.06	31.14%
6,000	180.00	236.76	\$ 56.76	31.53%
7,000	180.00	237.46	\$ 57.46	31.92%
8,000	180.00	238.16	\$ 58.16	32.31%
9,000	180.00	238.86	\$ 58.86	32.70%
10,000	180.00	239.56	\$ 59.56	33.09%
12,000	180.00	240.96	\$ 60.96	33.87%
14,000	180.00	242.36	\$ 62.36	34.64%
16,000	180.00	243.76	\$ 63.76	35.42%
18,000	180.00	245.16	\$ 65.16	36.20%
20,000	180.00	246.56	\$ 66.56	36.98%
25,000	180.00	250.06	\$ 70.06	38.92%
30,000	180.00	253.56	\$ 73.56	40.87%
35,000	180.00	257.06	\$ 77.06	42.81%
40,000	180.00	260.56	\$ 80.56	44.76%
45,000	180.00	264.06	\$ 84.06	46.70%
50,000	180.00	267.56	\$ 87.56	48.64%
60,000	180.00	274.56	\$ 94.56	52.53%
70,000	180.00	281.56	\$ 101.56	56.42%
80,000	180.00	288.56	\$ 108.56	60.31%
90,000	180.00	295.56	\$ 115.56	64.20%
100,000	180.00	302.56	\$ 122.56	68.09%
Average Usage				
4,059,941	\$ 2,476.77	\$ 3,074.52	\$ 597.75	24.13%
Median Usage				
1,784,000	\$ 1,156.72	\$ 1,481.36	\$ 324.64	28.07%

**Present Rates:**  
 Monthly Minimum: \$ 180.00  
 Gallons in Minimum 100,000  
 Charge Per 1,000 Gallons  
 All Gallons \$ 0.58

**Proposed Rates:**  
 Monthly Minimum: \$ 232.56  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 All Gallons \$ 0.70

Pima Utility Company - Wastewater Division  
 Bill Comparison of Present and Proposed Rates  
 Customer Classification Effluent Sales 2  
 Test Year Ended December 31, 2010

Exhibit  
 Schedule H-4  
 Page 9  
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 180.00	\$ 232.56	\$ 52.56	29.20%
1,000	180.00	233.26	\$ 53.26	29.59%
2,000	180.00	233.96	\$ 53.96	29.98%
3,000	180.00	234.66	\$ 54.66	30.37%
4,000	180.00	235.36	\$ 55.36	30.76%
5,000	180.00	236.06	\$ 56.06	31.14%
6,000	180.00	236.76	\$ 56.76	31.53%
7,000	180.00	237.46	\$ 57.46	31.92%
8,000	180.00	238.16	\$ 58.16	32.31%
9,000	180.00	238.86	\$ 58.86	32.70%
10,000	180.00	239.56	\$ 59.56	33.09%
12,000	180.00	240.96	\$ 60.96	33.87%
14,000	180.00	242.36	\$ 62.36	34.64%
16,000	180.00	243.76	\$ 63.76	35.42%
18,000	180.00	245.16	\$ 65.16	36.20%
20,000	180.00	246.56	\$ 66.56	36.98%
25,000	180.00	250.06	\$ 70.06	38.92%
30,000	180.00	253.56	\$ 73.56	40.87%
35,000	180.00	257.06	\$ 77.06	42.81%
40,000	180.00	260.56	\$ 80.56	44.76%
45,000	180.00	264.06	\$ 84.06	46.70%
50,000	180.00	267.56	\$ 87.56	48.64%
60,000	180.00	274.56	\$ 94.56	52.53%
70,000	180.00	281.56	\$ 101.56	56.42%
80,000	180.00	288.56	\$ 108.56	60.31%
90,000	180.00	295.56	\$ 115.56	64.20%
100,000	180.00	302.56	\$ 122.56	68.09%
Average Usage				
8,632,224	\$ 5,128.69	\$6,275.12	\$ 1,146.43	22.35%
Median Usage				
6,029,361	\$ 3,619.03	\$4,453.11	\$ 834.08	23.05%

**Present Rates:**  
 Monthly Minimum: \$ 180.00  
 Gallons in Minimum 100,000  
 Charge Per 1,000 Gallons  
 All Gallons \$ 0.58

Note: Present rates reflect the Water Division ir  
 This was an error.

**Proposed Rates:**  
 Monthly Minimum: \$ 232.56  
 Gallons in Minimum -  
 Charge Per 1,000 Gallons  
 All Gallons \$ 0.70

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Customer Classification Residential 5/8x3/4 Inch Meter

Exhibit  
Schedule H-5  
Page 1  
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul- ative Billing	Cumul- ative Sales (1,000s)
-	-	9,748	9,745	9,762	9,765	9,752	9,742	9,736	9,745	9,747	9,744	9,733	9,743	116,962	116,962	-
1	1,000													-	116,962	-
1,001	2,000													-	116,962	-
2,001	3,000													-	116,962	-
3,001	4,000													-	116,962	-
4,001	5,000													-	116,962	-
5,001	6,000													-	116,962	-
6,001	7,000													-	116,962	-
7,001	8,000													-	116,962	-
8,001	9,000													-	116,962	-
9,001	10,000													-	116,962	-
10,001	12,000													-	116,962	-
12,001	14,000													-	116,962	-
14,001	16,000													-	116,962	-
16,001	18,000													-	116,962	-
18,001	20,000													-	116,962	-
20,001	25,000													-	116,962	-
25,001	30,000													-	116,962	-
30,001	35,000													-	116,962	-
35,001	40,000													-	116,962	-
40,001	45,000													-	116,962	-
45,001	50,000													-	116,962	-
50,001	60,000													-	116,962	-
60,001	70,000													-	116,962	-
70,001	80,000													-	116,962	-
80,001	90,000													-	116,962	-
90,001	100,000													-	116,962	-
Totals		9,748	9,745	9,762	9,765	9,752	9,742	9,736	9,745	9,747	9,744	9,733	9,743	116,962		
														Average Usage	-	
														Median Usage	-	
														Average # Customers	9,747	
														Change in Number of Customers	(5)	

Exhibit  
Schedule H-5  
Page 2  
Witness: Bourassa

Usage From:	Usage To:	Month of Jan 204	Month of Feb 202	Month of Mar 204	Month of Apr 203	Month of May 205	Month of Jun 205	Month of Jul 206	Month of Aug 202	Month of Sep 206	Month of Oct 207	Month of Nov 203	Month of Dec 205	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
-	-													2,452	2,452	-
1	1,000													-	2,452	-
1,001	2,000													-	2,452	-
2,001	3,000													-	2,452	-
3,001	4,000													-	2,452	-
4,001	5,000													-	2,452	-
5,001	6,000													-	2,452	-
6,001	7,000													-	2,452	-
7,001	8,000													-	2,452	-
8,001	9,000													-	2,452	-
9,001	10,000													-	2,452	-
10,001	12,000													-	2,452	-
12,001	14,000													-	2,452	-
14,001	16,000													-	2,452	-
16,001	18,000													-	2,452	-
18,001	20,000													-	2,452	-
20,001	25,000													-	2,452	-
25,001	30,000													-	2,452	-
30,001	35,000													-	2,452	-
35,001	40,000													-	2,452	-
40,001	45,000													-	2,452	-
45,001	50,000													-	2,452	-
50,001	60,000													-	2,452	-
60,001	70,000													-	2,452	-
70,001	80,000													-	2,452	-
80,001	90,000													-	2,452	-
90,001	100,000													-	2,452	-
-	-													-	2,452	-
Totals		204	202	204	203	205	205	206	202	206	207	203	205	2,452		
									Average Usage					-		
									Median Usage					-		
									Average # Customers				204			
									Change in Number of Customers				1			

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Customer Classification Commercial 5/8x3/4 Inch Meter

Exhibit  
Schedule H-5  
Page 3  
Witness: Bourassa

Usage From:	Usage To:	Month of <u>Jan</u> 23	Month of <u>Feb</u> 23	Month of <u>Mar</u> 23	Month of <u>Apr</u> 23	Month of <u>May</u> 23	Month of <u>Jun</u> 23	Month of <u>Jul</u> 24	Month of <u>Aug</u> 24	Month of <u>Sep</u> 24	Month of <u>Oct</u> 24	Month of <u>Nov</u> 24	Month of <u>Dec</u> 24	Total Year	Cumul- ative Billing	Cumul- ative Sales (1,000s)
-	1,000													282	282	-
1	2,000													-	282	-
1,001	3,000													-	282	-
2,001	4,000													-	282	-
3,001	5,000													-	282	-
4,001	6,000													-	282	-
5,001	7,000													-	282	-
6,001	8,000													-	282	-
7,001	9,000													-	282	-
8,001	10,000													-	282	-
9,001	12,000													-	282	-
10,001	14,000													-	282	-
12,001	16,000													-	282	-
14,001	18,000													-	282	-
16,001	20,000													-	282	-
18,001	25,000													-	282	-
20,001	30,000													-	282	-
25,001	35,000													-	282	-
30,001	40,000													-	282	-
35,001	45,000													-	282	-
40,001	50,000													-	282	-
45,001	60,000													-	282	-
50,001	70,000													-	282	-
60,001	80,000													-	282	-
70,001	90,000													-	282	-
80,001	100,000													-	282	-
90,001	-													-	282	-
-	-													-	282	-
-	-													-	282	-
-	-													-	282	-
Totals		23	23	23	23	23	23	24	24	24	24	24	24	282		
															Average Usage	-
															Median Usage	-
															Average # Customers	24
															Change in Number of Customers	1

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Customer Classification Commercial 3/4 Inch Meter

Exhibit  
Schedule H-5  
Page 4  
Witness: Bourassa

Usage From:	Usage To:	Month of <u>Jan</u>	Month of <u>Feb</u>	Month of <u>Mar</u>	Month of <u>Apr</u>	Month of <u>May</u>	Month of <u>Jun</u>	Month of <u>Jul</u>	Month of <u>Aug</u>	Month of <u>Sep</u>	Month of <u>Oct</u>	Month of <u>Nov</u>	Month of <u>Dec</u>	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000's)
-	-	3	3	3	3	3	3	3	3	3	3	3	3	36	36	-
1	1,000													-	36	-
1,001	2,000													-	36	-
2,001	3,000													-	36	-
3,001	4,000													-	36	-
4,001	5,000													-	36	-
5,001	6,000													-	36	-
6,001	7,000													-	36	-
7,001	8,000													-	36	-
8,001	9,000													-	36	-
9,001	10,000													-	36	-
10,001	12,000													-	36	-
12,001	14,000													-	36	-
14,001	16,000													-	36	-
16,001	18,000													-	36	-
18,001	20,000													-	36	-
20,001	25,000													-	36	-
25,001	30,000													-	36	-
30,001	35,000													-	36	-
35,001	40,000													-	36	-
40,001	45,000													-	36	-
45,001	50,000													-	36	-
50,001	60,000													-	36	-
60,001	70,000													-	36	-
70,001	80,000													-	36	-
80,001	90,000													-	36	-
90,001	100,000													-	36	-
Totals		3	3	3	3	3	3	3	3	3	3	3	3	36		
														Average Usage	-	
														Median Usage	-	
														Average # Customers	3	
														Change in Number of Customers	-	

Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Customer Classification Commercial 1 Inch Meter

Exhibit  
Schedule H-5  
Page 5  
Witness: Bourassa

Usage From:	Usage To:	Month of <u>Jan</u> 25	Month of <u>Feb</u> 25	Month of <u>Mar</u> 25	Month of <u>Apr</u> 25	Month of <u>May</u> 25	Month of <u>Jun</u> 25	Month of <u>Jul</u> 25	Month of <u>Aug</u> 22	Month of <u>Sep</u> 22	Month of <u>Oct</u> 22	Month of <u>Nov</u> 22	Month of <u>Dec</u> 22	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
1	1,000													285	285	-
1,001	2,000													-	285	-
2,001	3,000													-	285	-
3,001	4,000													-	285	-
4,001	5,000													-	285	-
5,001	6,000													-	285	-
6,001	7,000													-	285	-
7,001	8,000													-	285	-
8,001	9,000													-	285	-
9,001	10,000													-	285	-
10,001	12,000													-	285	-
12,001	14,000													-	285	-
14,001	16,000													-	285	-
16,001	18,000													-	285	-
18,001	20,000													-	285	-
20,001	25,000													-	285	-
25,001	30,000													-	285	-
30,001	35,000													-	285	-
35,001	40,000													-	285	-
40,001	45,000													-	285	-
45,001	50,000													-	285	-
50,001	60,000													-	285	-
60,001	70,000													-	285	-
70,001	80,000													-	285	-
80,001	90,000													-	285	-
90,001	100,000													-	285	-
Totals		25	25	25	25	25	25	25	22	22	22	22	22	285		
															Average Usage	-
															Median Usage	-
															Average # Customers	24
															Change in Number of Customers	(3)

Pima Utility Company - Wastewater Division  
 Test Year Ended December 31, 2010  
 Customer Classification Commercial 1.5 Inch Meter

Exhibit  
 Schedule H-5  
 Page 6  
 Witness: Bourassa

Usage From:	Usage To:	Month of <u>Jan</u>	Month of <u>Feb</u>	Month of <u>Mar</u>	Month of <u>Apr</u>	Month of <u>May</u>	Month of <u>Jun</u>	Month of <u>Jul</u>	Month of <u>Aug</u>	Month of <u>Sep</u>	Month of <u>Oct</u>	Month of <u>Nov</u>	Month of <u>Dec</u>	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
-	-	9	9	9	9	9	9	9	9	9	9	9	9	108	108	-
1	1,000													-	108	-
1,001	2,000													-	108	-
2,001	3,000													-	108	-
3,001	4,000													-	108	-
4,001	5,000													-	108	-
5,001	6,000													-	108	-
6,001	7,000													-	108	-
7,001	8,000													-	108	-
8,001	9,000													-	108	-
9,001	10,000													-	108	-
10,001	12,000													-	108	-
12,001	14,000													-	108	-
14,001	16,000													-	108	-
16,001	18,000													-	108	-
18,001	20,000													-	108	-
20,001	25,000													-	108	-
25,001	30,000													-	108	-
30,001	35,000													-	108	-
35,001	40,000													-	108	-
40,001	45,000													-	108	-
45,001	50,000													-	108	-
50,001	60,000													-	108	-
60,001	70,000													-	108	-
70,001	80,000													-	108	-
80,001	90,000													-	108	-
90,001	100,000													-	108	-
Totals		9	9	9	9	9	9	9	9	9	9	9	9	108		
															Average Usage	-
															Median Usage	-
															Average # Customers	9
															Change in Number of Customers	-



Pima Utility Company - Wastewater Division  
Test Year Ended December 31, 2010  
Customer Classification Commercial 2 Inch Meter

Exhibit  
Schedule H-5  
Page 7  
Witness: Bourassa

Usage From:	Usage To:	Month of <u>Jan</u>	Month of <u>Feb</u>	Month of <u>Mar</u>	Month of <u>Apr</u>	Month of <u>May</u>	Month of <u>Jun</u>	Month of <u>Jul</u>	Month of <u>Aug</u>	Month of <u>Sep</u>	Month of <u>Oct</u>	Month of <u>Nov</u>	Month of <u>Dec</u>	Total Year	Cumul- ative Billing	Cumul- ative Gals (1,000s)
-	-	51	51	51	51	51	51	52	52	52	52	52	52	618	618	-
1	1,000													-	618	-
1,001	2,000													-	618	-
2,001	3,000													-	618	-
3,001	4,000													-	618	-
4,001	5,000													-	618	-
5,001	6,000													-	618	-
6,001	7,000													-	618	-
7,001	8,000													-	618	-
8,001	9,000													-	618	-
9,001	10,000													-	618	-
10,001	12,000													-	618	-
12,001	14,000													-	618	-
14,001	16,000													-	618	-
16,001	18,000													-	618	-
18,001	20,000													-	618	-
20,001	25,000													-	618	-
25,001	30,000													-	618	-
30,001	35,000													-	618	-
35,001	40,000													-	618	-
40,001	45,000													-	618	-
45,001	50,000													-	618	-
50,001	60,000													-	618	-
60,001	70,000													-	618	-
70,001	80,000													-	618	-
80,001	90,000													-	618	-
90,001	100,000													-	618	-
Totals		51	51	51	51	51	51	52	52	52	52	52	52	618		
														Average Usage		
														-		
														Median Usage		
														-		
														Average # Customers		
														52		
														Change in Number of Customers		
														1		

Exhibit  
Schedule H-5  
Page 8  
Witness: Bourassa

Usage From:	Usage To:	Month of <u>Jan</u>	Month of <u>Feb</u>	Month of <u>Mar</u>	Month of <u>Apr</u>	Month of <u>May</u>	Month of <u>Jun</u>	Month of <u>Jul</u>	Month of <u>Aug</u>	Month of <u>Sep</u>	Month of <u>Oct</u>	Month of <u>Nov</u>	Month of <u>Dec</u>	Total <u>Year</u>	Cumul- ative Billing	Cumul- ative Gals (1,000s)
-	-													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
437,000	437,000		1											1	1	437
451,000	451,000											1		1	2	888
1,489,000	1,489,000								1					1	3	2,377
682,000	682,000									1				1	4	3,059
919,000	919,000							1						1	5	3,978
997,000	997,000		1											1	6	4,975
1,047,000	1,047,000						1							1	7	6,022
1,367,000	1,367,000						1							1	8	7,389
1,459,000	1,459,000			1										1	9	8,848
2,109,000	2,109,000	1		1										1	10	10,957
2,217,000	2,217,000						1							1	11	13,174
2,236,000	2,236,000				1									1	12	15,410
3,204,000	3,204,000	1												1	13	18,614
5,360,000	5,360,000			1										1	14	23,974
5,958,931	5,958,931					1								1	15	29,933
6,614,000	6,614,000				1									1	16	36,547
15,777,000	15,777,000				1									1	17	52,324
20,755,000	20,755,000					1								1	18	73,079
														-	18	73,079
Totals		2	2	2	3	2	3	1	1	1	1	-	-	18		
											Average Usage			4,059,941		
											Median Usage			1,784,000		
											Average # Customers			2		
											Change in Number of Customers			(2)		

Exhibit  
Schedule H-5  
Page 9  
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
-	-													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
1,800,000	1,800,000									1				1	1	1,800
2,241,000	2,241,000										1			1	2	4,041
2,818,000	2,818,000							1						1	3	6,859
2,873,000	2,873,000												1	1	4	9,732
3,003,000	3,003,000						1							1	5	12,735
3,767,000	3,767,000								1					1	6	16,502
4,475,000	4,475,000													1	7	20,977
6,029,361	6,029,361											1		1	8	27,006
9,338,000	9,338,000													1	9	36,344
10,531,000	10,531,000								1					1	10	46,875
13,735,000	13,735,000										1			1	11	60,610
13,933,000	13,933,000												1	1	12	74,543
15,093,000	15,093,000						1							1	13	89,636
19,552,000	19,552,000							1						1	14	109,188
20,295,000	20,295,000									1				1	15	129,483
														-	15	129,483

Totals	-	-	-	-	-	2	2	2	2	2	3	2	15	
													Average Usage	8,632,224
													Median Usage	6,029,361
													Average # Customers	1
													Change in Number of Customers	2



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4 Attorneys for Pima Utility Company  
5  
6

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**  
8

9 IN THE MATTER OF THE APPLICATION  
OF PIMA UTILITY COMPANY, AN  
10 ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE  
11 OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
12 ITS WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02199A-11-\_\_\_\_\_

13 IN THE MATTER OF THE APPLICATION  
OF PIMA UTILITY COMPANY, AN  
14 ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE  
15 OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
16 ITS WASTEWATER RATES AND  
17 CHARGES FOR UTILITY SERVICE  
BASED THEREON.

DOCKET NO: SW-02199A-11-\_\_\_\_\_

18  
19  
20  
21 **DIRECT TESTIMONY OF**

22 **THOMAS J. BOURASSA**

23 **(COST OF CAPITAL)**  
24

25 **August 29, 2011**  
26

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

5 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT CONCURRENTLY**  
6 **FILED DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT,**  
7 **REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?**

8 A. Yes, and all of my background information and testimony regarding my  
9 qualifications are contained in that portion of my direct testimony.

10 **II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL**  
11 **FOR THE COMPANY**

12 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT**  
13 **TESTIMONY?**

14 A. This portion of my direct testimony focuses on cost of capital issues. I will testify  
15 in support of Pima Utility Company's ("Pima" or the "Company") proposed rate of  
16 return on its fair value rate base ("FVRB"). I am sponsoring the Company's  
17 D Schedules, which are attached to this testimony. There are twenty schedules that  
18 support my testimony and one attachment. As noted above, I am also sponsoring  
19 direct testimony that addresses the Company's rate base, income statement  
20 (revenue and operating expenses), required increase in revenue, and its rate design  
21 and proposed rates and charges for service. For convenience, that testimony and  
22 my related schedules are contained in separate volumes.

23 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.**

24 A. I have determined that the Company's cost of equity falls in the range of  
25 9.7 percent to 11.7 percent with the midpoint of the range at 10.7 percent. I am  
26 recommending a return on equity ("ROE") of 10.5 percent, which is 20 basis points

1 lower than the midrange, primarily due to the Company's desire to help mitigate  
2 the impact of necessary rate increase.

3 My recommendation is based on consideration of (i) cost of equity estimates  
4 using constant growth and multi-stage growth discounted cash flow ("DCF")  
5 models and the capital asset pricing model ("CAPM") for the sample group of  
6 publicly traded utilities, (ii) my review of the economic conditions expected to  
7 prevail during the period in which new rates will be in effect, (iii) my judgments  
8 about the risks associated with small utilities like Pima not captured by the market  
9 data for publicly-traded water utilities used in my study, (iv) the financial risk  
10 associated with the level of debt in Pima's capital structure, and (v) additional  
11 specific business and operational risks faced by Pima.

12 **Q. WHAT IS THE RECOMMENDED CAPITAL STRUCTURE FOR PIMA?**

13 A. The actual capital structure at the end of the test year (December 31, 2010)  
14 consisted 22.5 percent debt and 77.5 percent equity. However, the Company is  
15 recommending a proforma consolidated capital structure consisting of 31.1 percent  
16 debt and 68.9 percent equity. This is based upon issuance of an additional  
17 \$4 million of long-term debt and post test year principle payments on existing debt  
18 of \$1.755 million. The Company is filing a financing application to issue long-  
19 term debt totaling \$4 million parallel with its rate application.

20 **Q. WHAT IS THE RECOMMENDED COST OF DEBT FOR PIMA?**

21 A. The proforma cost of debt is 7.182 percent. This is based upon the weighted  
22 effective interest rates of Pima's exiting IDA bonds and the new long-term debt as  
23 shown on Schedule D-2. The effective interest rate reflects the amortization of  
24 debt issuance costs and is computed using the effective interest method (or yield-  
25 to-maturity) method.<sup>1</sup>

26 <sup>1</sup> The effective-interest method recognizes interest expense as a constant percentage of the bond's carrying



1 **Q. WHAT IS THE INTEREST RATE ON THE IDA BONDS?**

2 A. 7.25 percent. Including the impact of the amortization of the bond issuance costs,  
3 the effective interest rate is 7.696 percent.

4 **Q. WHAT IS THE PROPOSED INTEREST RATE ON THE NEW DEBT?**

5 A. 6.50 percent. Including the impact of the amortization of the bond issuance costs,  
6 the effective interest rate is 6.62 percent.

7 **Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL?**

8 A. The weighted cost of capital based upon a proforma capital structure consisting of  
9 31.1 percent debt and 68.9 percent equity, a debt cost of 7.183 percent, and a cost  
10 of equity of 10.5 percent is 9.47 percent as shown on Schedule D-1.

11 **Q. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE**  
12 **THE COST OF EQUITY FOR THE COMPANY.**

13 A. The cost of equity for Pima cannot be estimated directly because the Company's  
14 equity is not in the form of a publicly traded security and thus there is no market  
15 data for Pima. Consequently, I applied the DCF and CAPM models using data  
16 from a sample of water utilities selected from the Value Line Investment Survey.  
17 There are six water utilities in my sample: American States Water, Aqua America,  
18 California Water, Connecticut Water, Middlesex Water, and SJW Corp. As  
19 explained later in my testimony, these companies aren't really comparable to Pima,  
20 but they are water utilities for which market data are available and because the  
21 Utilities Division Staff has relied on data for these water utilities in a number of  
22 recent water and sewer utility rate cases.

23 To serve as a check on my cost of equity estimate, I prepared cost of equity  
24 estimates using two risk premium methods (build-up methods) that do not require a

25

26 value, rather than as an equal dollar amount each year.

1 beta estimate. Since Pima is not publicly traded there is no beta. Build-up  
2 methods are commonly used for non-publicly traded companies.

3 My DCF analyses indicate ROEs in the range of 9.2 percent to 9.8 percent  
4 with a midpoint of 9.5 percent. The CAPM analysis, again using the same sample  
5 group, indicates ROEs in the range of 10.0 percent to 12.4 percent are appropriate  
6 with a midpoint of 11.2 percent. Both the DCF and CAPM ranges are before  
7 consideration of company-specific risks.

8 My ROE estimates after consideration of company-specific risks are in the  
9 range of 9.7 percent to 11.7 percent with a midpoint of 10.7 percent. Given Pima's  
10 relatively small size compared to the larger publicly-traded utilities used in my  
11 sample, the regulatory methods and policies used in this jurisdiction, and other  
12 company-specific factors, it is my opinion that at the present time, a cost of equity  
13 of 10.7 percent is warranted. My cost of equity estimate using the build-up  
14 methods indicates a cost of equity for Pima in the range of 13.07 percent to 15.27  
15 percent. Thus, the 10.7 percent cost of equity estimate produced by the DCF and  
16 CAPM is extremely conservative by comparison.

17 However, my recommendation of a 10.5 percent ROE balances my  
18 judgment about the degree of financial and business risk associated with an  
19 investment in Pima, as well as consideration of the current economic environment  
20 and the Company's desire to help reduce the impact on ratepayers. A summary of  
21 my cost of equity analysis result is shown on Schedule D-4.1.

22 **III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE**  
23 **EXPECTED RETURN ON AN INVESTMENT**

24 **Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?**

25 A. The cost of equity is the rate of return that equity investors expect to receive on  
26 their investment. Investors can choose to invest in many types of assets, not simply

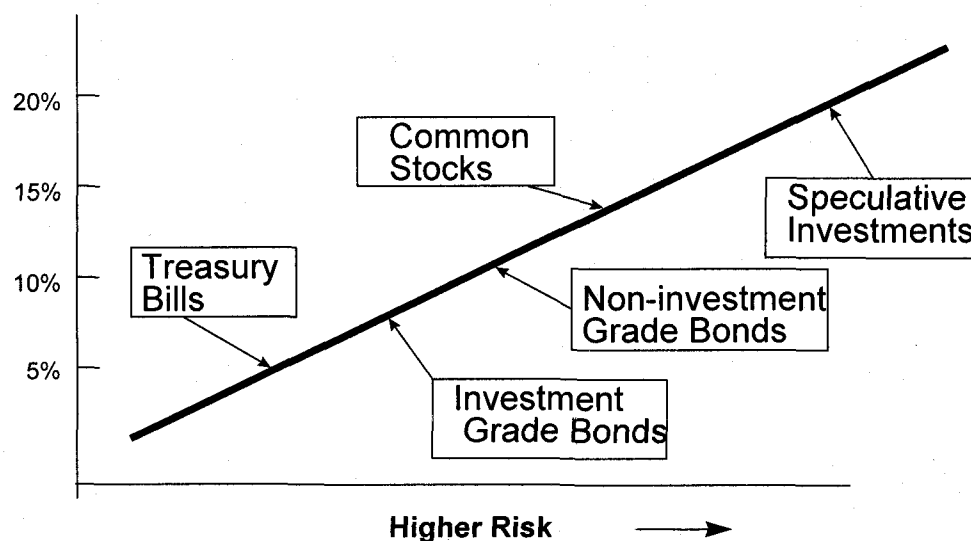
publicly traded stock. Each investment will have varying degrees of risk, ranging from relatively low risk assets such as Treasury securities to somewhat higher risk corporate bonds to even higher risk common stocks. As the level of risk increases, investors require higher returns on their investment. Finance models that are used to estimate the cost of equity often rely on this basic concept.

**Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN CONCEPT?**

**A.** Yes. The following graph depicts the risk-return relationship that has become widely known as the Capital Market Line ("CML"). The CML illustrates in a general way the risk-return relationship.

## The Capital Market Line (CML)

**Expected Rate of Return**



1 The CML can be viewed as a continuum of the available investment opportunities  
2 for investors. Investment risk increases move upward and to the right along the  
3 CML. Again, the return required by investors increases with the risk.

4 **Q. HOW DOES THE RISK-RETURN TRADE OFF CONCEPT WORK IN**  
5 **THE CAPITAL MARKET?**

6 A. As indicated by the CML, the allocation of capital in a free market economy is  
7 based upon the relative risk of, and expected return from, an investment. In  
8 general, investors rank investment opportunities in the order of their relative risks.  
9 Investment alternatives in which the expected return is commensurate with the  
10 perceived risk become viable investment options. If all other factors remain equal,  
11 the greater the risk, the higher the rate of return investors will require to  
12 compensate them for the possibility of loss of either the principal amount invested  
13 or the expected annual income from such investment.

14 Short-term Treasury bills provide a high degree of certainty and in nominal  
15 terms (after considering inflation) are considered virtually risk free. Long-term  
16 bonds and preferred stocks, having priority claims to assets and fixed income  
17 payments, are relatively low risk, but are not risk free. The market values of long-  
18 term bonds often fluctuate when government policies or other factors cause interest  
19 rates to change. Common stocks are higher and to the right on the CML continuum  
20 because they are exposed to more risk. Common stock risk includes the nature of  
21 the underlying business and financial strength of the issuing corporation as well as  
22 market-wide factors, such as general changes in capital costs.

23 The capital markets reflect investor expectations and requirements each day  
24 through market prices. Prices for stocks and bonds change to reflect investor  
25 expectations and the relative attractiveness of one investment versus another.  
26 While the example provided above seems straightforward, returns on common

1 stocks are not directly observable in advance, in contrast to debt or preferred stocks  
2 with fixed payment terms. This means that these returns must be estimated from  
3 market data. Estimating the cost of equity capital is a matter of informed judgment  
4 about the relative risk of the company in question and the expected rate of return  
5 characteristics of other alternative investments.

6 **Q. HOW IS THE COST OF EQUITY FOR A PARTICULAR UTILITY**  
7 **DETERMINED?**

8 A. The estimation of a utility's cost of equity is complex. It requires an analysis of the  
9 factors influencing the cost of various types of capital, such as interest on long-  
10 term debt, dividends on preferred stock, and earnings on common equity. The data  
11 for such an analysis comes from highly competitive capital markets, where the firm  
12 raises funds by issuing common stock, selling bonds, and by borrowing (both long-  
13 and short-term) from banks and other financial institutions. In the capital markets,  
14 the cost of capital, whether the capital is in the form of debt or equity, is  
15 determined by two important factors:

- 16 1) The pure or real rate of interest, often called the risk-free rate of interest;  
17 and,
- 18 2) The uncertainty or risk premium (the compensation the investor requires  
19 over and above the real or pure rate of interest for subjecting his capital to  
20 additional risk).

21 **Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.**

22 A. The pure rate of interest essentially reflects both the time preference for and the  
23 productivity of capital. From the standpoint of the individual, it is the rate of  
24 interest required to induce the individual to forgo present consumption and offer  
25 the funds thus saved to others for a specified length of time. Moreover, the pure  
26 rate of interest concept is based on the assumption that no uncertainty affects the

1 investment undertaken by the individual, i.e., there is no doubt that the periodic  
2 interest payments will be made and the principal returned at the end of the time  
3 period. In reality, investments without any risk do not exist. Every commitment of  
4 funds involves some degree of uncertainty.

5 Turning to the second factor affecting the cost of capital, it is generally  
6 accepted that the higher the degree of uncertainty, the higher the cost of capital.  
7 Investors are regarded as risk adverse and require that the rate of return increase as  
8 the risk(s) (uncertainty) associated with an investment increase(s).

9 **Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS**  
10 **DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?**

11 A. Yes. Conceptually,

12 [1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium  
13

14 where the risk premium investors require for common stocks will be higher than  
15 the risk premium they require for investment grade bonds. This relationship is  
16 depicted in the graph of the CML above. As I will discuss later in this testimony,  
17 this concept is the basis of risk premium methods, such as the CAPM, that are used  
18 to estimate the cost of equity.

19 **Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL**  
20 **MARKETS?**

21 A. In the past 10 years, inflation and capital market costs have generally declined.  
22 Interest rates have been lower than in previous decades. Past inflation, as  
23 measured by the Consumer Price Index, has been at relatively low levels in the past  
24 10 years.

1           The roughly six year span of economic expansion after the 2001 recession  
2 began to wane in 2007. Year-over-year Gross Domestic Product ("GDP") growth<sup>2</sup>  
3 for 2004, 2005, and 2006 was 3.6 percent, 2.9 percent, and 2.8 percent,  
4 respectively. GDP growth was, in part, spurred on by low interest rates during this  
5 period. The Federal Reserve, having lowered the target Federal Funds rate to 1.0  
6 percent by the end of 2003, began raising interest rates in 2004 to help keep the  
7 economy from overheating and to help keep inflation in check. By mid-2006, the  
8 target Federal Funds rate had been raised to 5.25 percent.

9           The economic expansion was broad, taking in the major consumer and  
10 industrial sectors for much of its span. However, the economic expansion also  
11 brought excesses, particularly in the areas of housing, lending practices, and the  
12 financial markets.

13           Economic growth slowed in 2007. For 2007, the year-over-year GDP  
14 growth had dropped to 2.0 percent with the last quarter of 2007 at a negative 0.2  
15 percent. The slow economic growth, combined with the excesses during the  
16 economic expansion of the previous six years, created turmoil in the credit,  
17 financial, and housing markets. This turmoil had a significant drag on the  
18 economy. Federal Reserve Chairman Ben Bernanke noted in Congressional  
19 testimony in late 2008 that financial markets were under considerable stress and  
20 that broader retrenchment in the willingness of investors to bear risk, troubles in  
21 the credit markets and a weaker outlook of economic growth have each added to  
22 the stresses on economic growth.

23           In order to address the weakening economy, the Federal Reserve, starting in  
24 September 2007, has undertaken a series of Federal Funds rate cut actions (500 to  
25

26 <sup>2</sup> GDP percentage change based on current dollars (1930-2010).

1 525 total basis points). The reductions in interest rates by the Federal Open Market  
2 Committee ("FOMC") were taken in order to promote economic growth and to  
3 mitigate risks to economic activity. The target Federal Funds rate currently stands  
4 at zero to .25 percent.

5 The recession, which some argue began in late 2007 continued through 2008  
6 and for most of 2009. The year-over-year GDP growth for 2008 was -0.3 percent.  
7 The year-over-year GDP growth for 2009 was -3.5 percent. However during the  
8 last quarter of 2009 the economy grew 3.8 percent. Many economists believe the  
9 recession ended in the third quarter of 2009, however, the recovery has been slow  
10 and tepid due to continued high unemployment and a lingering slump in housing  
11 and construction as well as and continued weakness in business and consumer  
12 spending.

13 GDP growth for 2010 was a modest 3.0 percent. However, the economy  
14 began to wane in the third and fourth quarters of 2010. In the first and second  
15 quarter of 2011, the business expansion stumbled. GDP growth for the first and  
16 second quarter of 2011 was 0.4 percent and 1.3 percent, respectively. Economists  
17 note that unusually severe weather and the earthquake in Japan that disrupted  
18 supply chains contributed to the falloff in business expansion in the first half of  
19 2011. The recent budget and debt ceiling battles and the downgrade in U.S. debt  
20 have also contributed heavily to low consumer sentiment and consumer spending  
21 which will likely have a drag on the economy for several quarters. Economists  
22 foresee a modest GDP growth of 3.0 percent for the second half of 2011 rising  
23 slightly in 2012.

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1 **Q. WHAT ABOUT INTEREST RATES AND THE STATUS OF THE STOCK**  
2 **MARKET?**

3 A. After the significant drop on the U.S. stock markets in 2008 and the surge in 2009,  
4 the stock market now seems stuck in a range bounded by those optimistic investors  
5 on one side pointing to low interest rates, modest valuations, and surging earnings,  
6 and those concerned investors pointing to continued global uncertainty, slowing  
7 GDP growth. So, there remains uncertainty over the potential for future economic  
8 growth. This was clearly seen in the roughly 15 percent market drop seen in the  
9 weeks just before this filing was made.

10 With respect to interest rates, the Federal Reserve lowered the Federal  
11 Funds target rate to near zero during the depths of the 2007 to 2009 recession  
12 where it continues to stand at zero to .25 percent. While the move to lower interest  
13 rates may have been necessary at the time, the Federal Reserve is left with little  
14 latitude to affect new monetary moves going forward. The Federal Reserve  
15 recently announced (August 9, 2011) that it intended to keep interest rates low well  
16 into 2013 due, in part, to the expected economic conditions going forward. This  
17 news was met with mixed reactions from investors. On the one hand, investors and  
18 businesses received some level of certainty regarding interest rates over the next  
19 few years. On the other hand, the need to keep interest rates low reflects that the  
20 Federal Reserve does not expect economic conditions to improve much over the  
21 same period.

22 In short, the current capital markets continue to reflect the uncertainty and  
23 low confidence of investors in the financial markets and in the future prospects of  
24 economic growth over the next several years. Naturally, despite relatively low  
25 U.S. Treasury yields over the past several years, the premiums required for  
26

1 investors to hold and buy private securities remains high due to this ongoing  
2 uncertainty.

3 **Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND**  
4 **INTEREST RATES?**

5 A. Yes. All things being equal, the cost of equity moves in the same direction as  
6 interest rates. Lower interest rates on U.S. Treasuries ("risk-free" rate) imply  
7 lower equity returns and visa versa. However, as indicated by Equation [1] above,  
8 the risk premium required to compensate investors also impacts the cost of equity.  
9 Higher risk premiums required by investors imply higher equity costs and vice  
10 versa. Risk premiums are impacted by uncertainty not only future interest rates,  
11 but business and economic conditions, expected inflation (or deflation), and other  
12 risk factors including business risk, regulatory risk, financial risk, construction risk,  
13 and liquidity risk.

14 **Q. IS PIMA AFFECTED BY THESE SAME MARKET UNCERTAINTIES**  
15 **AND CONCERNS?**

16 A. Yes, in general, all investors are impacted by economic uncertainty including the  
17 Company's investors. Capital costs have risen significantly over the past few years  
18 because of this uncertainty. And, smaller utilities like Pima generally feel the  
19 impact worse because of their size, with a small customer base and a related  
20 limited or inability to attract capital.

21 **Q. WHAT RECENT DEVELOPMENTS IN THE WATER UTILITY**  
22 **INDUSTRY ARE AFFECTING INVESTMENTS?**

23 A. On the whole, the water and wastewater utility industry is expected to continue to  
24 confront increasing need for infrastructure upgrades and replacement, as well as  
25 possible additional demand. *Value Line Investment Survey* continues to stress that  
26 many utilities have facilities that are decades old and in need of significant

1 maintenance and, in some cases, massive renovation and replacement. As  
2 infrastructure costs continue to climb, many smaller companies are at a serious  
3 disadvantage. Without sufficient resources to fund improvements to meet new and  
4 more stringent requirements, many smaller companies are being forced to sell to  
5 larger utilities, which have greater operational flexibility and resources, as well as  
6 access to capital. However, *Value Line* notes that most of the companies in this  
7 sector are starved for cash and balance sheets are debt-laden. This will require  
8 outside financing largely from more debt and higher associated interest expense,  
9 which will thwart share-earnings and shareholder gains. Some companies may  
10 have to rethink current payout ratios if the costs of doing business cannot be  
11 curbed.

12 **Q. PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON**  
13 **CAPITAL COSTS.**

14 A. With reference to specific utilities, risk is often discussed as consisting of two  
15 separate types of risk: business risk and financial risk.

16 Business risk, the basic risk associated with any business undertaking, is the  
17 uncertainty associated with the enterprise's day-to-day operations. In essence, it is  
18 a function of the normal day-to-day business environment, both locally and  
19 nationally. Business risks include the condition of the economy and capital  
20 markets, the state of labor markets, regional stability, government regulation,  
21 technological obsolescence, and other similar factors that may impact demand for  
22 the business product and its cost of production. For utilities, business risk also  
23 includes the volatility of revenues due to abnormal weather conditions, degree of  
24 operational leverage, regulation, and regulatory climate. Regulation, for example,  
25 can compound the business risk if it is unpredictable in reacting to cost increases  
26 both in terms of the time lag and magnitude for recovery of such increases.

1 Regulatory lag makes it difficult to earn a reasonable return, particularly in an  
2 inflationary environment and/or when there is significant lag between the timing of  
3 investment in capital projects and its recognition in rates. Put simply, the greater  
4 the degree of uncertainty regarding the various factors affecting a company's  
5 business, the greater the risk of an investment in that company and the greater the  
6 compensation required by the investor.

7 Financial risk, on the other hand, concerns the distribution of business risk  
8 to the various capital investors in the utility. As I discussed earlier, permanent  
9 capital is normally divided into three categories: long-term debt, preferred stock,  
10 and common equity. Because common equity owners have only a residual claim  
11 on earnings after debt and preferred stockholders are paid, financial risk tends to be  
12 concentrated in that element of the firm's capital. Thus, a decision by management  
13 to raise additional capital by issuing additional debt concentrates even more of the  
14 financial risk of the utility in the common equity owners.

15 An important component of financial risk is construction risk. Construction  
16 risk refers to the magnitude of a company's capital budget. If a company has a  
17 large construction budget relative to internally generated cash flows, it will require  
18 external financing. It is important that companies have access to capital funds on  
19 reasonable terms and conditions. Utilities are more susceptible to construction risk  
20 for two reasons. First, utilities generally have high capital requirements to build  
21 plant to serve customers. Second, utilities have a mandated obligation to serve  
22 leaving less flexibility both in the timing and discretion of scheduling capital  
23 projects. This is compounded by the limited ability to wait for more favorable  
24 market conditions to raise the capital necessary to fund the capital projects.

25 Although often discussed separately, the two types of risks (business and  
26 financial) are interrelated. Specifically, a common equity investor may seek to

1 offset exposure to high financial risk by investing in a firm perceived to have a low  
2 degree of business risk. In other words, the total risk to an investor would be high  
3 if the enterprise was characterized as a high business risk with a large portion of its  
4 permanent capital financed with senior debt. To attract capital under these  
5 circumstances, the firm would have to offer higher rates of return to its common  
6 equity investors.

7 **IV. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN**

8 **Q. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE**  
9 **RATE OF RETURN THAT A UTILITY'S RATES SHOULD PRODUCE?**

10 A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for  
11 determining whether a rate of return is reasonable in *Bluefield Water Works and*  
12 *Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679,  
13 692-93 (1923):

14 A public utility is entitled to such rates as will permit it to  
15 earn a return on the value of the property which it employs  
16 for the convenience of the public equal to that generally being  
17 made at the same time and in the same general part of the  
18 country on investments on other business undertakings which  
19 are attended by corresponding risks and uncertainties .... The  
20 return should be reasonably sufficient to assure confidence in  
21 the financial soundness of the utility and should be adequate,  
22 under efficient and economical management, to maintain and  
23 support its credit and enable it to raise money necessary for  
24 the proper discharge of its public duties. A rate of return may  
25 be reasonable at one time and become too high or too low by  
26 changes affecting opportunities for investment, the money  
market, and business conditions generally.

22 In summary, under *Bluefield Water Works*:

- 23 (1) The rate of return should be similar to the return in businesses with  
24 similar or comparable risks;  
25 (2) The return should be sufficient to ensure the confidence in the  
26 financial integrity of the utility; and

1 (3) The return should be sufficient to maintain and support the utility's  
2 credit.

3 **Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY**  
4 **PROCEEDINGS?**

5 A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme  
6 Court has resulted in controversy. The typical method of computing the overall  
7 cost of capital is quite straightforward: it is the composite, weighted cost of the  
8 various classes of capital (debt, preferred stock, and common equity) used by the  
9 utility. The weighting is done by calculating the proportion that each class of  
10 capital bears to total capital. However, there is no consensus regarding the best  
11 method of estimating the cost of equity capital. The increasing regulatory  
12 emphasis on objectivity in determining the rate of return has resulted in a  
13 proliferation of market-based finance models that are used in equity return  
14 determination. As will be discussed more fully below, however, none of these  
15 models are universally accepted as the "correct" means of estimating the ROE.  
16

17 **V. THE ESTIMATED COST OF EQUITY FOR PIMA**

18 **A. The Publicly Traded Utilities That Comprise the Sample Group Used to**  
19 **Estimate the Company's Cost of Equity.**

20 **Q. PLEASE DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR**  
21 **COST OF CAPITAL ANALYSIS FOR PIMA.**

22 A. Again, estimating the cost of equity is a matter of informed judgment. The  
23 development of an appropriate rate of return for a regulated enterprise involves a  
24 determination of the level of risk associated with that enterprise and the  
25 determination of an appropriate return for that risk level. Practitioners employ  
26

1 various techniques that provide a link to actual capital market data and assist in  
2 defining the various relationships that underlie the equity cost estimation process.

3 Since Pima is not publicly traded, the information required to directly  
4 estimate its cost of equity is not available. Accordingly, as previously noted, I used  
5 a sample group of water utilities as a starting point to develop an appropriate cost  
6 of equity for Pima. There are six water utilities included in the sample group:  
7 American States Water, Aqua America, California Water, Connecticut Water,  
8 Middlesex Water, and SJW Corp. All these companies are followed by the *Value*  
9 *Line Investment Survey*.

10 **Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY**  
11 **COMPARABLE TO PIMA?**

12 A. No, but they are utilities for which market data is available. All of them are  
13 regulated, they primarily provide water service, although some provide both water  
14 and wastewater services, and their primary source of revenues is from regulated  
15 services. Therefore, they provide a useful starting point for developing a cost of  
16 equity for the Company. I emphasized "starting point" because Pima is not  
17 publicly traded. Additionally, there is no market data available for smaller utilities,  
18 like Pima, that can be used to directly develop cost of equity estimates.

19 **Q. BRIEFLY, WHY IS A PROXY SAMPLE GROUP NECESSARY IN A COST**  
20 **OF CAPITAL ANALYSIS AND HOW IS IT SELECTED?**

21 A. The comparable earnings standard set forth in the *Bluefield Water Works* decision,  
22 and in *Hope Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591  
23 (1944), require the rate of return afforded to utilities be similar to the return in  
24 businesses with similar or comparable risks. A proxy group of companies with  
25 comparable risk is therefore the starting point in a cost of capital analysis.  
26

1           There are two broad approaches to choosing a proxy group.<sup>3</sup> The first  
2 approach consists of selecting pure-play companies that are directly comparable in  
3 risk to the subject utility. The companies are chosen using strict criteria with an  
4 attempt to identify companies with the same investment risk as the subject utility.  
5 There are several qualitative measures that influence investors' assessment of risk  
6 that can be used to screen companies. These include SIC classification, bond  
7 ratings, beta risk, business risk scores, size, percentage of revenues from regulated  
8 operations, common equity ratio, geographical location, etc.<sup>4</sup>

9           The second approach is to select as large a group of utilities as possible that  
10 is representative of the utility industry average and make adjustments for any  
11 difference between the subject utility and the industry average. Whether one  
12 employs the direct approach or the indirect approach, the selection of companies  
13 for a proxy group always raises the question of whether it is possible to select a  
14 group that are of comparable risk. Further, there is always the question of  
15 identifying any differences in investment risk. The electric, natural gas, and water  
16 utility industries have witnessed numerous takeovers, restructuring, corporate  
17 reorganizations, unbundling, and increased competition over the last decade or so,  
18 all of which has made selections of proxy groups more difficult.<sup>5</sup>

19           The Company's approach utilizes an indirect method. The water companies  
20 selected derive the vast majority of their revenues from regulated operations. As  
21 shown in Schedule D-4.2, the six water utilities on average derive over 90 percent  
22 of the revenues from regulated activities. These companies were also chosen  
23 because they are publicly traded, are not in financial distress, and there is a  
24

25 <sup>3</sup> Roger A. Morin. *New Regulatory Finance* (2006) at 400.

26 <sup>4</sup> *Id.*

<sup>5</sup> *Id.*



1 sufficiently long financial and market history from which to perform an analysis.  
2 American Water Works (AWK), for example, was not selected though it is publicly  
3 traded and derives 89 percent of its revenues from regulated activities. This is  
4 because AWK only became a publicly traded entity in 2006 so arguably there is  
5 insufficient financial and market history at this time in order to perform a robust  
6 and meaningful analysis. Pennichuck Corporation (PNNW), which was not used,  
7 is another example of a company that is not a good proxy company candidate.  
8 PNNW has been in merger negotiations with the City of Nashua and its stock price  
9 is heavily influenced by the pending merger.

10 The bottom line is that the water utility companies in my proxy group are  
11 considered representative of the average of the industry, and, as I have stated  
12 throughout my testimony, must be adjusted for differences in investment risk.

13 **Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY**  
14 **SAMPLE CAPTURE ALL OF THE MARKET RISKS THAT PIMA MIGHT**  
15 **FACE IF IT WERE PUBLICLY TRADED?**

16 A. In my opinion, no. As I stated, there is no comparable market data for utility  
17 companies the size of Pima. The average revenue of the water utility sample  
18 companies is over 66 times that of Pima, and the average net plant of the water  
19 utility sample companies is over 54 times that of Pima. Even the smallest company  
20 in the sample group, Connecticut Water, has nearly sixteen times the net plant of  
21 Pima, and nearly fourteen times the revenues.

22 Putting aside the size aspect, an investment in Pima is not a liquid  
23 investment. If an investor invests in any of the publicly traded utilities is not happy  
24 with the returns, ~~he/she may sell his/her stock within minutes~~ while liquidating an  
25 investment in Pima could take years. This is liquidity risk. Liquidity risk is a  
26 significant risk to an investment in non-publicly traded companies like Pima.

1 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER**  
2 **UTILITIES IN YOUR SAMPLE.**

3 A. Schedule D-4.2 lists the current operating revenues and net plant for the six water  
4 utilities as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports)  
5 and Pima, respectively. The six sample companies may be generally described as  
6 follows:

7 (1) American States Water (AWR) primarily serves the California  
8 market through Golden State Water Company, which provides water  
9 services to over 256,000 customers within 75 communities in ten  
10 counties in the State of California, primarily in Los Angeles, San  
11 Bernardino, and Orange counties. It has one subsidiary serving the  
12 Arizona market with approximately 13,000 customers in Fountain  
13 Hills and Scottsdale. AWR also owns an electric utility service  
14 provider with over 23,000 customers, but approximately 73 percent  
15 of its revenues were derived from commercial and residential water  
16 customers. Revenues for AWR were nearly \$398 million in 2010  
17 and net plant was nearly \$855 million at the end of 2010.

18 (2) Aqua America (WTR) owns regulated utilities in Pennsylvania,  
19 Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana,  
20 Virginia, Maine, Missouri, New York, and Georgia, serving nearly  
21 963,000 customers at the end of 2010. WTR's utility base is  
22 diversified among residential water, commercial water, fire  
23 protection, industrial water, other water, and wastewater customers.  
24 Total revenues for WTR were over \$726 million in 2010 and net  
25 plant was nearly \$3.5 billion at the end of 2010.  
26

- 1 (3) California Water Service Group (CWT) owns subsidiaries in  
2 California, New Mexico, Washington, and Hawaii serving nearly  
3 498,000 customers. Revenues for CWT were over \$460 million in  
4 2010 and net plant nearly \$1.2 billion at the end of 2010.
- 5 (4) Connecticut Water Services (CTWS) owns subsidiaries in  
6 Connecticut and Massachusetts serving over 89,000 customers.  
7 Revenues for CTWS were nearly \$73 million in 2010 and net plant  
8 over \$344 million at the end of 2010.
- 9 (5) Middlesex Water (MSEX) owns subsidiaries in New Jersey,  
10 Delaware and Pennsylvania serving over 100,000 customers and  
11 provides water service under contract to municipalities in central  
12 New Jersey serving a population of over 303,000. Revenues for  
13 MSEX were over \$102 million in 2010 and net plant was nearly  
14 \$399 million at the end of 2010.
- 15 (6) SJW Corp. (SJW) owns San Jose Water, which provides water  
16 service in a 138 square mile area in San Jose, California, and  
17 surrounding communities serving nearly 235,000 customers.  
18 Revenues for SJW were nearly \$216 million in 2010 and net plant  
19 was nearly \$715 million at the end of 2010.

20 **Q. HOW DOES PIMA COMPARE TO THE SAMPLE WATER UTILITIES?**

21 A. It is much smaller. At the end of the test year, the Company had approximately  
22 10,000 water and wastewater customers. Its revenues totaled approximately  
23 \$5 million, and net plant-in-service was approximately \$21.9 million. Pima is  
24 located in Maricopa County, Arizona, and has a relatively small service territory  
25 compared to the sample water companies.  
26

1 **Q. ARE THERE ANY OTHER CHARACTERISTICS THAT DISTINGUISH**  
2 **THE COMPANY FROM THE SAMPLE WATER UTILITIES?**

3 A. Yes. Pima has less debt in its capital structure than the sample water utilities. At  
4 the end of the test year, Pima had approximately 22.5 percent debt and 77.5 percent  
5 equity in its capital structure. However, Pima is requesting approval of long-term  
6 debt of \$4 million, which will increase the level of debt in the capital structure to  
7 approximately 31.1 percent and reduce the level of equity to 68.9 percent. The  
8 sample publicly traded water utilities current level of debt is about 50 percent on  
9 average; implying a lower level of financial risk for Pima.

10 **Q. ARE THERE OTHER CHARACTERISTICS OF SMALLER UTILITIES,**  
11 **LIKE PIMA, WHICH INCREASE RISK?**

12 A. Yes. Because smaller utilities, like Pima, are not publicly traded they have less  
13 financial flexibility which in turn increases risk. The Company does not have  
14 access to the public equity markets and this lack of financial flexibility increases  
15 risk because it has no choice but to rely on retained earnings, short-term debt,  
16 privately-placed debt and, to a limited extent, WIFA loans, in order to provide  
17 capital for plant improvements and additions necessary to ensure safe and reliable  
18 water service to its customers. Further, the Company does not have a market to  
19 issue common stock to the public to raise capital.

20 Water and sewer utilities are capital intensive and typically have to have  
21 large construction budgets. Since the last rate cases, the Company has added over  
22 \$19 million of new plant. As I have previously discussed in this testimony, firms  
23 with large capital budgets face construction risk (a form of financial risk). The size  
24 of a utility's capital budget relative to the size of the utility itself often increases  
25 construction risk. Larger utilities may be able to fund large capital budgets from  
26 earnings and short-term borrowings. For smaller utilities, like Pima, the ability to

1 fund relatively large capital budgets from earnings and short-term debt is difficult  
2 and requires that additional capital be raised. However, the ability to raise  
3 additional capital is in and of itself challenging and compounded by a limited  
4 ability to access capital, an obligation to serve, and a limited ability wait for more  
5 favorable market conditions to raise the capital to fund necessary capital projects.

6 **Q. WHAT OTHER RISK FACTORS DISTINGUISH PIMA FROM THE**  
7 **LARGER SAMPLE WATER UTILITIES?**

8 A. There are a number of state specific factors that increase the risk to Arizona water  
9 (and wastewater) utilities.

10 First, the regulatory environment in which the Company operates is much  
11 different than that of the sample water utilities. Arizona water and wastewater  
12 utilities face legal constraints that limit their ability to obtain rate relief outside of a  
13 general rate case in which the "fair value" of the utility's property is determined  
14 and used to set rates. By policy, the Commission also limits the ability of Arizona  
15 utilities to utilize automatic adjustment mechanisms, advice letter filings and other  
16 streamlined procedures to obtain recovery of costs outside a general rate case, in  
17 contrast to many other jurisdictions.

18 Second, the Commission requires the use of an historic test year with  
19 limitations on the amount of out-of-period adjustments. This process creates  
20 another state-specific factor that increases risk and thus the required ROEs for  
21 utilities in Arizona. In fact, three out of the six sample water companies operate  
22 primarily in California – AWR, CWT and SJW. California uses future test years to  
23 help better match plant investment and revenues and expenses going forward - the  
24 period in which rates will be in effect. California also allows the use of balancing  
25 accounts on major operating expenses like purchased power and purchased water,  
26 which help utilities to timely recover expenses that are beyond their control.

1 California also allows the use of water revenue adjustment mechanisms  
2 ("WRAM") to address under collection of revenues due to water conservation.

3 A fourth utility in the sample group, WTR, has regulatory mechanisms  
4 available to it to help lessen risk. In six states in which WTR operates water  
5 utilities, and two states in which WTR operates wastewater utilities, regulatory  
6 bodies permit it to add a surcharge to water or wastewater bills to offset the  
7 additional depreciation and capital costs associated with certain capital  
8 expenditures related to replacing and rehabilitating infrastructure systems. WTR  
9 also operates in jurisdictions in which it may bill utility customers in accordance  
10 with a rate filing that is pending before the respective regulatory commission, as  
11 well as jurisdictions that authorize the use of expense deferrals and amortization in  
12 order to provide for recognition in its operating income of an amount that  
13 approximates the requested amount in a rate request. In addition, certain states in  
14 ~~which WTR operates use a surcharge or credit on bills to reflect changes in certain~~  
15 costs, such as changes in state tax rates, other taxes and purchased water, until such  
16 time as the costs are incorporated into base rates.

17 **Q. SO PIMA REALLY ISN'T COMPARABLE TO THE SAMPLE WATER**  
18 **UTILITIES.**

19 A. It really isn't, for the reasons I have stated. Besides the obvious difference in size  
20 as well as difference in regulatory environments, constraints on the rate making  
21 process in Arizona make it difficult to obtain approval of rates that allow Arizona  
22 water and wastewater utilities to recover the costs of service they will actually  
23 incur during the period when new rates are put in place, which can be a few years  
24 beyond the test year. In the interim, actual operating costs continue to increase.  
25 Risks are thus higher for Pima and the required return on equity should be above  
26 the level required by water and wastewater utilities that operate in states that do not

1 have such limitations, whether imposed by law or by agency policy, on the rate-  
2 setting system. Unfortunately, as I have testified, the approaches commonly used  
3 to estimate a utility's cost of equity require market data, which is not available for  
4 smaller companies and utilities operating exclusively in Arizona, like Pima. As a  
5 result, much larger, public companies must be used as proxies.

6 But the emphasis on proxy is very important. The criteria established by the  
7 Supreme Court in decisions such as *Bluefield Water Works* require the use of  
8 comparable companies, i.e., companies that would be viewed by investors as  
9 having similar risks. A rational investor would not regard Pima as having the same  
10 level of risk as WTR or even CTWS - even with Pima's lower financial risk -  
11 because of the previously mentioned regulatory constraints in Arizona.  
12 Consequently, the results produced by the DCF and CAPM methodologies,  
13 utilizing data for the sample utilities, often understate the appropriate return on  
14 equity for a regulated water and wastewater utility provider such as Pima.

15 **Q. YOU PREVIOUSLY DISCUSSED FINANCIAL RISK, WHICH IS**  
16 **RELATED TO A FIRM'S CAPITAL STRUCTURE. HOW DO THE**  
17 **CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES**  
18 **COMPARE TO PIMA?**

19 A. Schedule D-4.3 shows that the proforma capital structure of Pima for this rate case  
20 contains 68.9 percent equity and 31.1 percent debt, compared to the average of the  
21 water utility sample of 50.0 percent debt and 50.0 percent equity.

22 **Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL**  
23 **STRUCTURE AND ITS COST OF CAPITAL?**

24 A. Yes. Generally speaking, when a firm engages in debt financing, it exposes itself  
25 to greater risk. Once debt becomes significant relative to the total capital structure,  
26 the risk increases in a geometric fashion compared to the linear percentage increase

1 in the debt ratio itself. This risk is illustrated by considering the effect of leverage  
2 on net earnings. For example, as leverage increases, the equity ratio falls. This  
3 creates two adverse effects. First, equity earnings decline rapidly and may even  
4 disappear. Second, the "cushion" of equity protection for debt falls. A decline in  
5 the protection afforded debt holders, or the possibility of a serious decline in debt  
6 protection, will act to increase the cost of debt financing. Therefore, one may  
7 conclude that each new financing, whether through debt or equity, impacts the  
8 marginal cost of future financing by any alternative method. For a firm already  
9 perceived as being over-leveraged, this additional borrowing would cause the  
10 marginal cost of both equity and debt to increase. On the other hand, if the same  
11 firm instead successfully employed equity funding, this could actually reduce the  
12 real marginal cost of additional borrowing, even if the particular equity issuance  
13 occurred at a higher unit cost than an equivalent amount of debt.

14 ~~Having less debt in its capital structure implies that Pima has less financial~~  
15 risk than the sample water utilities. However, smaller utilities cannot support the  
16 same level of debt as larger utilities and smaller utilities face higher business and  
17 operational risk, as compared to larger utilities, which magnify the financial risk of  
18 higher debt levels in their capital structures. The approximately 31.1 percent debt  
19 in the Company's capital structure is reasonable given its size.

20 **B. Overview of the DCF and CAPM Methodologies**

21 **Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING**  
22 **THE COST OF CAPITAL.**

23 **A.** These two broad approaches:

- 24 1) identify comparable-risk sample companies and estimate the cost of  
25 capital directly, or,  
26



- 1                   2)     find the location of the CML and estimate the relative risk of the  
2                             company, which jointly determines the cost of capital.

3                   The DCF model is an example of a method falling into the first general  
4                   approach. It is a direct method, but uses only a subset of the total capital market  
5                   evidence. The DCF model rests on the premise that the fundamental value of an  
6                   asset (stock) is its ability to generate future cash flows to the owner of that asset  
7                   (stock). I will explain the DCF model in detail in a moment but, for now, the DCF  
8                   is simply the sum of a stock's expected dividend yield and the expected long-term  
9                   growth rate. Dividend yields are readily available, but long-term growth estimates  
10                  are not.

11                 The CAPM is an example of a method falling into the second general  
12                 approach. It uses information on all securities rather than a small subset. I will  
13                 explain the CAPM in more detail later. For now, the CAPM is a risk-return  
14                 relationship, often depicted graphically as the CML. The CAPM is the sum of a  
15                 risk-free return and a risk premium.

16                 The Build-up Risk Premium method ("Build-up Method") is another  
17                 example of a method falling into the second general approach. I will explain the  
18                 Build-up Method in more detail later. For now, the Build-up method, like the  
19                 CAPM, is a risk-return relationship. The Build-up Method is the sum of a risk-free  
20                 return and a risk premium. However, rather than a single risk premium as is used  
21                 in the CAPM, the risk premium in the Build-up Method is made up of one or more  
22                 risk premia. Each risk premium represents the reward an investor receives for  
23                 taking on a specific risk.

24                 Each of these three methods has its own way of measuring investor  
25                 expectations. In the final analysis, ROE estimates are subjective and should be  
26                 based on sound, informed judgment rationally articulated and supported by

competent evidence. I have applied several versions of the DCF, and two versions of the CAPM to "bracket" the fair cost of equity capital for Pima, but without taking into account the additional risks that Pima possesses. I also use the Build-up Method which serves as a check on the results of my DCF and CAPM.

**C. Explanation of the DCF Model and Its Inputs**

**Q. PLEASE EXPLAIN IN DETAIL THE DCF METHOD OF ESTIMATING THE COST OF EQUITY.**

A. The DCF model is based on the concept that the current price of a share of stock is equal to the present value of future cash flows from the purchase of the stock. In other words, the DCF model is an attempt to replicate the market valuation process that sets the price investors are willing to pay for a share of a company's stock. It rests on the assumption that investors rely on the expected returns (i.e., cash flow they expect to receive) to set the price of a security. The DCF model in its most general form is:

$$[2] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$$

where  $k$  is the cost of equity;  $n$  is a very large number;  $P_0$  is the current stock price; and,  $CF_1, CF_2, \dots, CF_n$  are all the expected future cash flows expected to be received in periods 1, 2, ...  $n$ .

Equation (2) can be written to show that the current price ( $P_0$ ) is also equal to

$$[3] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + P_t/(1+k)^t$$

where  $P_t$  is the price expected to be received at the end of the period  $t$ . If the future price ( $P_t$ ) included a premium (an expected increase in the stock price or capital gain), the price the investor would pay today (in anticipation of receiving that premium) would increase. In other words, by estimating the cash flows from the purchase of a stock in the form of dividends and capital gains, we can calculate the

1 investor's required rate of return, i.e., the rate of return an investor presumptively  
2 used in bidding the current price to the stock ( $P_0$ ) to its current level.

3 Equation [3] is a Market Price version of the DCF model. As with the  
4 general form of the DCF model in equation [2], in the Market Price approach the  
5 current stock price ( $P_0$ ) is the present value of the expected cash inflows. The cash  
6 flows are comprised of dividends and the final selling price of the stock. The  
7 estimated cost of equity ( $k$ ) is the rate of return investors expect if they bought the  
8 stock at today's price, held the stock and received dividends through the transition  
9 period, and then sold it for price ( $P_1$ ).

10 **Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET**  
11 **PRICE VERSION OF THE DCF MODEL?**

12 **A.** Yes. Assume an investor buys a share of common stock for \$40. If the expected  
13 dividend during the coming year is \$2.00, then the expected dividend yield is 5  
14 percent ( $\$2.00/\$40 = 5.0$  percent). If the stock price is also expected to increase to  
15 \$43.00 after one year, this \$3.00 expected gain adds an additional 7.5 percent to the  
16 expected total rate of return ( $\$3.00/\$40 = 7.5$  percent). Thus, the investor buying  
17 the stock at \$40 per share, expects a total return of 12.5 percent (5 percent dividend  
18 yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the  
19 appropriate measure of the cost of capital because this is the rate of return that  
20 caused the investor to commit \$40 of his capital by purchasing the stock.

21 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF**  
22 **MODEL.**

23 **A.** Under the assumption that future cash flows are expected to grow at a constant rate  
24 (" $g$ "), equation [2] can be solved for  $k$  and rearranged into the simple form:

25 [4]  $k = CF_1/P_0 + g$   
26

1 where  $CF_1/P_0$  is the expected dividend yield and  $g$  is the expected long-term  
2 dividend (price) growth rate ("g"). The expected dividend yield is computed as the  
3 ratio of next period's expected dividend (" $CF_1$ ") divided by the current stock price  
4 (" $P_0$ "). This form of the DCF model is known as the constant growth DCF model  
5 and recognizes that investors expect to receive a portion of their total return in the  
6 form of current dividends and the remainder through future dividends and capital  
7 (price) appreciation. A key assumption of this form of the model is that investors  
8 expect that same rate of return ( $k$ ) every year and that market price grows at the  
9 same rate as dividends. This has not been historically true for the water utility  
10 sample, as shown by the data in Schedule D-4.4 and Schedule D.4.5. As a result,  
11 estimates of long-term growth rates ( $g$ ) should take this into account.

12 **Q. ARE THERE ANY CONCERNS ABOUT APPLYING THE DCF MODEL**  
13 **TO UTILITY STOCKS?**

14 A. There are a number of reasons why caution must be used when applying the DCF  
15 model to utility stocks. First, the stock price and dividend yield components may  
16 be unduly influenced by structural changes in the industry, such as mergers and  
17 acquisitions, which influence investor expectations. Second, the DCF model is  
18 based on a number of assumptions which may not be realistic given the current  
19 capital market environment. The traditional DCF model assumes that the stock  
20 price, book value, dividends, and earnings all grow at the same rate. This has not  
21 been historically true for the sample water utility companies. Third, the application  
22 of the DCF model produces estimates of the cost of equity that are consistent with  
23 investor expectations only when the market price of a stock and the stock's book  
24 value are approximately the same. The DCF model will understate the cost of  
25 equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the  
26 cost of equity when the market-to-book ratio is less than 1.0. The reason for this is

1 that the market-derived return produced by the DCF is often applied to book value  
2 rate base by regulators. Fourth, the assumption of a constant growth rate may be  
3 unrealistic, and there may be difficulty in finding an adequate proxy for the growth  
4 rate. Historical growth rates can be downward biased as a result of the impact of  
5 anemic historical growth rates in earnings, mergers and acquisitions, restructuring,  
6 unfavorable regulatory decisions, and even abnormal weather patterns. Further, by  
7 placing too much emphasis on the past, the estimation of future growth becomes  
8 circular.

9 **Q. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS.**  
10 **WHAT DATA HAVE YOU USED TO COMPUTE THE EXPECTED**  
11 **DIVIDEND YIELD ( $CF_1/P_0$ ) IN YOUR MODELS?**

12 A. First, I computed a current dividend yield ( $CF_0/P_0$ ). The expected dividend yield  
13 ( $CF_1/P_0$ ) is the current dividend yield ( $CF_0/P_0$ ) times one plus the growth rate ( $g$ ).  
14 I used the spot price for each of the stocks of the water utilities in the sample group  
15 on as reported by the Value Line Investment Analyzer for July 22, 2011 for  $P_0$ .  
16 The current dividend ( $CF_0$ ) is the dividend for the next year as reported by Value  
17 Line. In my schedules, the current dividend yield is denoted as ( $D_0/P_0$ ), where  $D_0$   
18 is the current dividend and  $P_0$  is the spot stock price. ( $D_1/P_0$ ) is used to denote the  
19 expected dividend yield in the schedules.

20 **Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?**

21 A. For my primary DCF growth estimate, I have used analyst growth forecasts, where  
22 available, from four different, widely-followed sources: *Zack's Investment*  
23 *Research*, *Morningstar*, *Yahoo Finance*<sup>6</sup>, and *Value Line Investment Survey*.  
24 Schedule D-4.6 reflects the analyst estimates of growth. The currently available  
25

26 <sup>6</sup> Yahoo Finance analyst estimates provided by Thompson Financial.

1 estimates from these four sources provide at least two estimates for each of the  
2 sample water utility companies. When there is no estimate of forward-looking  
3 growth for a utility in the water utilities sample, I have assumed investors expect  
4 the growth for that utility to equal the average of growth rates for the other water  
5 utilities in the sample.

6 **Q. WHY DID YOU USE FORECASTED GROWTH RATES AS YOUR**  
7 **PRIMARY ESTIMATE OF GROWTH?**

8 A. The DCF model requires estimates of growth that investors expect in the future and  
9 not past estimates of growth that have already occurred. Accordingly, I use as a  
10 primary estimate of growth analysts' forecasts of growth. Logically, in estimating  
11 future growth, financial institutions and analysts have taken into account all  
12 relevant historical information on a company as well as other more recent  
13 information.<sup>7</sup> To the extent that past results provide useful indications of future  
14 growth prospects, analysts' forecasts would already incorporate that information.  
15 In addition, a stock's current price reflects known historic information on that  
16 company, including its past earnings history. Any further recognition of the past  
17 will double count what has already occurred. Therefore, forward-looking growth  
18 rates should be used.

19 **Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?**

20 A. I use the 5-year historical average growth rates in the stock price, book value per  
21 share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS")  
22

23 <sup>7</sup> David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating  
24 Share Yield," *Journal of Portfolio Management* (Spring 1989) 50 – 55. Gordon, Gordon and Gould found  
25 that a consensus of analysts' forecasts of earnings per share growth for the next five years provides a more  
26 accurate estimate of growth required in the DCF model than three different historical measures of growth  
(historical EPS, historical DPS, and historical retention growth). They explain that this result makes sense  
because analysts would take into account such past growth as indicators of future growth as well as any  
new information.

1 along with the average of analyst expectations. Using the historical average of  
2 growth in price, BVPS, EPS, and DPS is reasonable because investors know that,  
3 in equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the  
4 same rate and would take information about changes in stock prices and growth in  
5 BVPS into account when they price utilities' stocks. As I stated earlier, a basic  
6 assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow  
7 at the same rate. While I believe the use of historical growth rates gives added  
8 recognition to the past that is already incorporated into analyst estimates of growth,  
9 I have been criticized by the Staff in the past for not giving direct consideration to  
10 past growth rates in my estimate of growth. So, I have endeavored to remove any  
11 basis for the criticism in this case. However, I do so reluctantly because the  
12 empirical evidence indicates that analyst estimates of growth are the best measure  
13 of growth for use in the DCF for utility stocks.

14 **Q. HAVE YOU USED ANALYST ESTIMATES OF DPS GROWTH?**

15 A. No. While I did not use analyst estimates of DPS growth, the average projected  
16 DPS growth rate of 4.13 percent is higher than the historical DPS growth rate of  
17 3.33 percent. Putting this aside, I did not use analyst estimates of dividend growth  
18 for primarily because there are analyst estimates for dividend growth for only three  
19 of the six sample companies. Further, only one source (Value Line) provides DPS  
20 growth estimates. The wide availability of earnings growth estimates compared to  
21 dividend growth estimates indicates a greater reliance by investors on earnings  
22 rather than dividends for their investment decisions.

1           **D.     Explanation of the CAPM and Its Inputs**

2   **Q.     PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING**  
3   **THE COST OF EQUITY.**

4   A.    As I already indicated, the CAPM is a type of risk premium methodology that is  
5   often depicted graphically in a form identical to the CML. Put simply, the CAPM  
6   formula is the sum of a risk-free rate plus a risk premium. It quantifies the  
7   additional return required by investors for bearing incremental risk. The risk-free  
8   rate is the reward for postponing consumption by investing in the market. The risk  
9   premium is the additional return compensation for assuming risk.

10           The CAPM formula provides a formal risk-return relationship premised on  
11   the idea that only market risk matters, as measure by beta. The CAPM formula is:

12           
$$(7) \quad k = R_f + \beta(R_m - R_f)$$

13   where k is the expected return,  $R_f$  is the risk-free rate,  $R_m$  is the market return,  $(R_f -$   
14    $R_m)$  is the market risk premium, and  $\beta$  is beta.

15           The difficulty with the CAPM is that it is a prospective or forward-looking  
16   model while most of the capital market data required to match the input variables  
17   above is historical.

18   **Q.     WHAT IS THE RISK-FREE RATE?**

19   A.    It is the return on an investment with no risk. The U.S. Treasury rate serves as the  
20   basis for the risk-free rate because the yields are directly observable in the market  
21   and are backed by the U.S. government. Practically speaking, short-term rates are  
22   volatile, fluctuate widely and are subject to more random disturbances than long-  
23   term rates. In short, long-term Treasury rates are preferred for these reasons and  
24   because long-term rates are more appropriately matched to securities with an  
25   indefinite life or long-term investment horizon.



1 **Q. WHAT IS BETA AND WHAT DOES IT MEASURE?**

2 A. Beta is a measure of the relative risk of a security in relation to the market. In  
3 other words, it is a measure of the sensitivity of a security to the market as a whole.  
4 This sensitivity is also known as systematic risk. It is estimated by regressing a  
5 security's excess returns against a market portfolio's excess returns. The slope of  
6 the regression line is the beta.

7 Beta for the market is 1.0. A security with a beta greater than 1.0 is  
8 considered riskier than the market. A security with a beta less than 1.0 is  
9 considered less risky than the market.

10 There are computational problems surrounding beta. It depends on the  
11 return data, the time period used, its duration, the choice of the market index, and  
12 whether annual, monthly, or weekly return figures are used. Betas are estimated  
13 with error. Based on empirical evidence, high betas will tend to have a positive  
14 error (risk is overestimated) and low betas will have a negative error (risk is  
15 underestimated).<sup>8</sup>

16 **Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR PIMA?**

17 A. I used the average beta of the sample water utility companies. Betas were obtained  
18 from *Value Line Investment Analyzer* (July 22, 2011). *Value Line* is the source for  
19 estimated betas that I regularly employ, along with Staff, and it is widely-accepted  
20 by financial analysts. The average beta as shown on Schedule D-4.9 is 0.78.  
21 I should note that because Pima is not publicly traded, Pima has no beta. I believe  
22 that Pima, if it were publicly traded, would have a higher beta than the sample  
23 water utility companies.

24  
25  
26 <sup>8</sup> Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence,"  
*Journal of Economic Perspectives* (Summer 2004) 25 – 46.

1 **Q. WHY WOULD PIMA HAVE A HIGHER BETA?**

2 A. As previously indicated, smaller companies are more risky than larger companies.  
3 In Chapter 7 of Morningstar's *Ibbotson SBBI 2011 Valuation Yearbook*, for  
4 example, Ibbotson reports that when betas (a measure of market risk) are properly  
5 estimated, betas are larger for small companies than for larger companies. As I  
6 will explain later, Ibbotson also finds that even after accounting for differences in  
7 beta risk, small firms require an additional risk premium over and above the added  
8 risk premium indicated by differences in beta risk.

9 **Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM.**

10 A. The market-risk premium ( $R_m - R_f$ ) is the return an investor expects to receive as  
11 compensation for market risk. It is the expected market return minus the risk-free  
12 rate. Approaches for estimating the market risk premium can be historical or  
13 prospective.

14 Since expected returns are not directly observable, historical realized returns  
15 are often used as a proxy for expected returns on the basis that the historical market  
16 risk premium follows what is known in statistics as a "random walk." If the  
17 historical risk premium does follow the random walk, then one should expect the  
18 risk premium to remain at its historical mean. Based on this argument, the best  
19 estimate of the future market risk premium is the historical mean. Morningstar's  
20 *SBBI Valuation Edition 2011 Yearbook* provides historical market returns for  
21 various asset classes from 1926 to 2010. This publication also provides market risk  
22 premiums over U.S. Treasury bonds, which make it an excellent source for  
23 historical market risk premiums.

24 Prospective market risk premium estimation approaches necessarily require  
25 examining the returns expected from common equities and bonds. One method  
26 employs applying the DCF model to a representative market index such as the

1 Value Line 1700 stocks (the *Value Line* Composite Index). The expected return  
2 from the DCF is measured for a number of periods of time, and then subtracted  
3 from the prevailing risk-free rate for each period to arrive at market risk premium  
4 for each period. The market risk premium subsequently employed in the CAPM is  
5 the average market risk premium of the overall period.

6 **Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU**  
7 **PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR PIMA?**

8 A. I prepared two market risk premium estimates: An historical market risk premium  
9 and a current market risk premium.

10 **Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK**  
11 **PREMIUM?**

12 A. I used the Morningstar's *Ibbotson SBBI 2011 Valuation Yearbook* measure of the  
13 average premium of the market over long-term treasury securities from 1926  
14 through 2010. The average historical market risk premium over long-term treasury  
15 securities is 6.7 percent.

16 **Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?**

17 A. I derived a market risk premium by, first, using the DCF model to compute an  
18 expected market return for each of the past 6 months using *Value Line's*  
19 projections of the average dividend yield and median 3-5 year price appreciation  
20 (growth) on the *Value Line* 1700 Composite Index. I then subtracted the average  
21 30-year Treasury yield for each month from the expected market returns to arrive  
22 at the expected market risk premiums. Finally, I averaged the computed market  
23 risk premiums to determine the current market risk premium. The data and  
24 computations are shown on Schedule D-4.11. The average current market risk  
25 premium is 9.75 percent. Estimates of the current market risk premium have  
26 ranged from 7.01 percent to 13.82 percent over the past 12 months averaging 9.74

1 percent. The most recent 3-month average is 11.18 percent. My 6-month average  
2 estimate at 9.75 percent is in the lower end of the 12 month range and is more  
3 conservative than the recent 3-month average.

4 **Q. HAS STAFF EMPLOYED A CURRENT MARKET RISK PREMIUM IN**  
5 **THE PAST?**

6 A. Yes. However, their estimation of the current market risk premium was somewhat  
7 different. Staff uses a DCF model to compute the current market risk premium as I  
8 do. However, Staff also uses a single spot estimate using the median annualized  
9 projected 3-5 year price appreciation on the *Value Line* 1700 stocks in conjunction  
10 the median dividend yield on the *Value Line* 1700 stocks.

11 **Q. WHY DO YOU BELIEVE THAT YOUR APPROACH IS MORE**  
12 **APPROPRIATE?**

13 A. Staff typically computes a market risk premium based on a single point in time,  
14 ~~which makes estimates extremely volatile, so much so that the expected market~~  
15 risk premium estimate can change by as much as 300 basis points (or more) each  
16 time it is estimated. The accuracy of the expected risk premium is greatly  
17 enhanced by increasing the number of periods used to estimate it. It is analogous  
18 to flipping a coin. One cannot predict with any degree of accuracy the result of a  
19 single flip of a balanced coin, or even a few. But the more coin flips, the greater  
20 degree of confidence one has in predicting the outcome.

21 **Q. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?**

22 A. I use long-term expected Treasury bond rates as the measure of the risk-free return  
23 for use with both CAPM cost of equity estimates from two sources: the Blue Chip  
24 Financial Forecast and Value Line. Morningstar's *Ibbotson SBBI 2011 Valuation*  
25 *Yearbook* explains on page 55 that the appropriate choice for the risk-free rate is  
26 the expected return for long-term Treasury securities. Thus, when determining an

1 estimate of the risk-free rate, it is appropriate to adopt a return that is no less than  
2 the expected return on the long-term Treasury bond rate. Both of my CAPM  
3 estimates are based on expected interest rates using a current spot estimate (July  
4 22, 2011) and projected estimates of the long-term treasury rates for 2012 and 2013  
5 (from *Blue Chip Financial Forecasts* and *Value Line Selection and Opinion*). The  
6 2012 to 2013 timeframe is the period when new rates will be in effect for the  
7 Company.

8 **E. Explanation of the Build-Up Method and Its Inputs**

9 **Q. PLEASE EXPLAIN THE BUILD-UP RISK PREMIUM METHODOLOGY**  
10 **FOR ESTIMATING THE COST OF EQUITY.**

11 A. As I already indicated, like the CAPM, the Build-up method is a type of risk  
12 premium methodology. This is a common and effective method used by appraisers  
13 and valuation experts.<sup>9</sup> The Build-up Method is an additive model in which the  
14 return on a security is the sum of a risk-free rate and one or more risk premia.  
15 Each premium represents the reward an investor receives for taking on a specific  
16 risk. The elegance of the Build-up Method is that it does not require an estimate of  
17 market beta, which is problematic for non-publicly, traded companies such as  
18 Pima. The Build-up Method can be stated as follows:

19  $[1] \quad k = R_f + RP_m + RP_s \pm RP_u$

20 where k = the expected return

21  $R_f$  = risk-free rate

22  $RP_m$  = equity risk premium for the market

23  $RP_s$  = equity risk premium for size

24  $RP_u$  = risk premium attributed to the specific company or to the industry  
25 (often call the company specific risk premium)

26 <sup>9</sup> Morningstar Ibbotson *SBBI 2011 Valuation Yearbook*. Chapter 3.

1 Or alternatively as:

2 [2]  $k = R_f + RP_{ms} \pm RP_u$

3 where  $k$  = the expected return

4  $R_f$  = risk-free rate

5  $RP_{m+s}$  = equity risk premium for the market and size

6  $RP_u$  = risk premium attributed to the specific company or to the industry  
7 (often call the company specific risk premium)

8 The data for the equity risk premium for the market ( $RP_m$ ), the equity risk  
9 premium for size ( $RP_s$ ), and the company specific or industry risk premium ( $RP_u$ )  
10 can be readily obtained from *Morningstar* and/or other size premium studies such  
11 as the *Duff & Phelps* study.<sup>10</sup> *Morningstar* quantifies the size premium separate  
12 from the market risk premium by market capitalization as a measure of size  
13 whereas *Duff & Phelps* study quantifies the risk premium ( $RP_{m+s}$ ) (market premium  
14 ( $RP_m$ ) plus the size premium ( $RP_s$ )) by book value of common equity, 5 year  
15 average net income, market value of invested capital, total assets (as reported on  
16 balance sheet), 5-year average of earnings before interest, income taxes,  
17 depreciation and amortization (EBITDA), sales, and number of employees in  
18 addition to market capitalization – all of which have been shown to be highly  
19 correlated with market returns. I should note that the authors of the *Duff & Phelps*  
20 study conclude that, by whatever measures of size are used, the results are clear  
21 that there is an inverse relationship between size and historical equity returns –  
22 small companies have higher returns than larger companies.<sup>11</sup>

23  
24  
25 <sup>10</sup> Duff & Phelps LLC, *Risk Premium Report 2011*.

26 <sup>11</sup> *Id.* at 6.

1 Q. ARE THERE ADVANTAGES TO THE USE OF THE BUILD-UP RISK  
2 PREMIUM METHODOLOGY OVER THE CAPM FOR ESTIMATING  
3 THE COST OF EQUITY?

4 A. Yes. First, as I mentioned earlier, the Build-up Method does not require a market  
5 beta estimate that is not available for non-public firms. As I already discussed,  
6 I am using the average beta of the large publicly traded water utilities as a proxy  
7 for the beta of Pima. However, as I also discussed, there are computation problems  
8 surrounding beta and empirical financial data show that beta does not account for  
9 all of the risks associated with smaller firms. Second, each of the risk premia used  
10 in the Build-up Method can be quantified using data from the equity markets.  
11 Third, the various measures of size including fundamental accounting measures  
12 have a practical benefit of eliminating the need to make a "guesstimate" of size for  
13 comparative purposes where market data for determining market value measures of  
14 size is not available, particularly for non-public firms.

15 F. Financial Risk Adjustment

16 Q. PLEASE EXPLAIN YOUR FINANCIAL RISK ADJUSTMENT TO  
17 REFLECT THE COMPANY'S LOWER LEVEL OF DEBT IN ITS  
18 CAPITAL STRUCTURE AS COMPARED TO THE SAMPLE WATER  
19 UTILITIES.

20 A. My financial risk estimation is based upon the methodology developed by  
21 Professor Hamada of the University of Chicago, which incorporates the beta of a  
22 levered firm to that of its unlevered counterpart. The equation is

23 
$$\beta_L = \beta_U [1 + (1 - T)\phi]$$

24 where  $\beta_L$  and  $\beta_U$  are the levered and unlevered betas, respectively, T is the tax rate,  
25 and  $\phi$  the leverage, defined as the ratio of debt and equity of the firm. In simple  
26 terms, I unlever the average beta of the six publicly-traded water utilities in my

1 sample using a ratio of the market value of debt and the market value of equity.  
2 While I can compute the market value of equity of the sample water utilities based  
3 on the current number of shares outstanding and the current stock price, estimating  
4 the market value of debt is much more difficult. For purposes of my analysis,  
5 I assume the market value of debt is the book value. This is a customary and  
6 realistic assumption.<sup>12</sup> Once the unlevered beta is determined, I relever the beta  
7 using the capital structure of Pima. For the market value of equity, I multiplied  
8 Pima's book value of equity times the average market-to-book ratio of the sample  
9 water utilities. For Pima's debt, I assume the market value of debt is equal to the  
10 book value.

11 The re-levered beta is then used in my CAPM models, and the new CAPM  
12 results are compared to my original CAPM results. The computed difference is the  
13 basis of my financial risk adjustment. My computation of the financial risk  
14 adjustment can be found in tables D-4.17, D-4.18, and D-4.19.

15 **Q. WHAT IS THE COMPUTED FINANCIAL RISK ADJUSTMENT?**

16 A. A downward adjustment of no more than 40 basis points. Again, however, in my  
17 opinion, the beta for Pima would be higher than that of the sample water utilities  
18 that would have resulted in a lower downward financial risk adjustment. But  
19 I have to make some assumptions to work with, an approach used by Staff and the  
20 Commission in past cases.

21 **G. Company Specific Risk Premium**

22 **Q. PLEASE DISCUSS YOUR COMPANY-SPECIFIC RISK PREMIUM.**

23 A. As I testified earlier, Pima is not directly comparable to the sample water utilities  
24 because of its small size and the regulatory environment in Arizona. The  
25 characteristics associated with small size such as the lack of diversification, limited

---

26 <sup>12</sup> Morin at 224.



1 revenue and cash flow, small customer base, lack of liquidity, as well as the  
2 magnitudes of regulatory and construction risk which are common to smaller water  
3 and wastewater utilities regardless of the regulatory jurisdiction. These  
4 characteristics and magnitudes of risk are unique only in the sense that the large  
5 publicly-traded water utilities (including the companies in the proxy group) do not  
6 possess these same characteristics and magnitudes of risk. With respect to Arizona  
7 regulation, the use of an historical test year, with limited out-of-period adjustments,  
8 and the lack of automatic adjuster mechanism(s) increases the risk of Pima as an  
9 investment.

10 **Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.**

11 A. Investment risk increases as the firm size decreases, all else remaining constant.  
12 There is a great deal of empirical evidence that the firm size ~~phenomenon~~ exists.  
13 Morningstar's *Ibbotson SBBI 2011 Valuation Yearbook* (Chapter 7) reports that  
14 smaller companies have experienced higher returns that are not fully explainable  
15 by their higher betas and that beta is inversely related to company size. In other  
16 words, smaller companies not only have higher betas but higher returns than larger  
17 ones. Even after accounting for differences in beta risk, small companies require  
18 an additional risk premium over and above the added risk premium indicated by  
19 differences in beta risk. Dr. Zepp also reported evidence that the stocks of small  
20 water or wastewater utilities, like Pima, are more risky than the stocks of larger  
21 water utilities, such as those in the water utilities sample.<sup>13</sup> Even the California  
22 PUC conducted a study that showed smaller water utilities are more risky than  
23  
24  
25

26 <sup>13</sup> Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited," *The Quarterly Review Economics and Finance*, Vol. 43, Issue 3, Autumn 2003, 578 – 582.

1 larger ones.<sup>14</sup> Based on the evidence, it is clear that investors require higher returns  
2 on small company stocks than on large company stocks.

3 I have included in Schedule D-4.16 the results of an *Ibbotson* study using  
4 annual data reporting the size premium based upon firm size and return data  
5 (i) provided in Morningstar's *Ibbotson SBBI 2010 Valuation Yearbook* and  
6 information, and (ii) contained in Dr. Zepp's 2003 article in *The Quarterly Review*  
7 *Economic and Finance*. I have estimated that a small company risk premium in the  
8 range of 99 to 237 basis points is appropriate.

9 **Q. WHAT COMPANY SPECIFIC-RISK PREMIUM DO YOU RECOMMEND**  
10 **FOR PIMA?**

11 A. To be conservative, and with Pima's desire to mitigate the impact of the required  
12 rate increase in mind, I concluded that a company specific risk premium of no less  
13 than 100 basis points is warranted for Pima to account for its smaller size and  
14 regulatory risk.

15 **H. Summary and Conclusions**

16 **Q. HAVE YOU PREPARED A SCHEDULE THAT SUMMARIZES YOUR**  
17 **EQUITY COST ESTIMATES AND PRESENTS YOUR**  
18 **RECOMMENDATIONS?**

19 A. Yes. The equity cost estimates and my recommendations are summarized in  
20 Schedule D-4.1.

21 In the first part of my analysis, I applied two versions of the constant growth  
22 DCF model. One uses analyst estimates of growth and the other uses historical  
23 growth and analyst expectations.<sup>15</sup> The DCF models produce an indicated equity  
24 cost in the range of 9.2 percent to 9.8 percent, with a midpoint of 9.5 percent.

25 <sup>14</sup> Staff Report on Issues Related to Small Water Utilities, June 10, 1991 and Pima Decision 92-03-093.

26 <sup>15</sup> See Schedule D-4.8.

1 In the second part of my analysis, I applied two versions of the CAPM – a  
2 historical risk premium CAPM and a current market risk premium CAPM. The  
3 CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity  
4 in the range of 10.0 percent to 12.4 percent, with a midpoint of 11.2 percent.

5 In the third part of my analysis, I compute a financial risk adjustment to  
6 account for the lower level of debt in Pima's capital structure compared to the  
7 sample water utilities. My recommendation is that a downward financial risk  
8 adjustment of no more than 40 basis points be applied to Pima's cost of equity. My  
9 financial risk adjustment analysis is shown in schedules D-4.13, D-4.14, and D-  
10 4.15.

11 In the fourth part of my analysis, I reviewed the financial literature on the  
12 small firm size effect and determined that an appropriate small company size  
13 premium for small utilities like Pima is the range of 99 to 246 basis points.<sup>16</sup> I also  
14 considered the risks for Pima from Arizona regulation. My recommendation is that  
15 an upward adjustment for company-specific risk of no 50 to 100 basis points be  
16 applied to Pima's cost of equity.

17 The range of results of both my DCF and CAPM analyses and other risk  
18 adjustments is 9.7 percent to 11.7 percent, with a mid-point of 10.7 percent.<sup>17</sup>

19 **Q. WHAT EQUITY RETURN DO YOU RECOMMEND?**

20 A. My recommended return on equity based on Pima's capital structure is  
21 10.7 percent. It is lower than the mid-point of the range of my over-all results and  
22 reflects the desire by the Company to help mitigate the impact on ratepayers.

23  
24  
25 <sup>16</sup> See Schedule D-4.16.

26 <sup>17</sup> See Schedule D-4.1.

1 Q. HAVE YOU PREPARED AN ESTIMATE OF THE COST OF EQUITY  
2 USING THE BUILD-UP METHOD FOR PIMA USING DATA FROM  
3 MORNINGSTAR?

4 A. Yes. Using the Build-up Method, I estimate the cost of equity for Pima to be 13.18  
5 percent. This is based upon the data from *Morningstar* as contained Table C-1 (the  
6 risk-rate would be 4.6 percent,<sup>18</sup> the equity risk premium would be 6.7 percent,<sup>19</sup>  
7 the small company risk premium of 6.28 percent,<sup>20</sup>) and data contained in Table 3-  
8 5 – Industry Premia Estimates (negative 4.59 for the water supply industry SIC  
9 code 494). The calculation is shown as follows:

10 [1]  $k = R_f + RP_m + RP_s \pm RP_u$

11 [2]  $k = 4.6\% + 6.7\% + 6.36\% - 4.59\%$

12 [3]  $k = 13.07\%$

13 Q. HAVE YOU PREPARED A COST OF EQUITY ESTIMATE FOR PIMA  
14 USING THE DUFF & PHELPS STUDY DATA?

15 A. Yes. Please see **Exhibit TJB-COC-DT1**. I have included cost of equity estimates  
16 for the water sample companies. These estimates have been adjusted for leverage  
17 (financial risk) differences between the companies in the size portfolios contained  
18 in the study and the water sample companies and Pima. Further, like the Build-up  
19 Method cost of equity estimate using the *Morningstar* data, the cost of equity  
20 estimates includes a water industry risk premium adjustment.<sup>21</sup> Based on various  
21 measures of size the results are as follows.<sup>22</sup>

22  
23 <sup>18</sup> Long-term (20 year) U.S. Treasury Bond Yield

24 <sup>19</sup> Long-horizon historical equity risk premium.

25 <sup>20</sup> Decile 10 – smallest, market capitalization of 1.222 million to 235.647 million.

26 <sup>21</sup> Note that the risk premium for the water utility industry is negative indicating that water utilities are less  
risky than the market as a whole.

<sup>22</sup> See **Exhibit TJB-COC-DT1**, Table 7.

1	<u>Stock</u>		<u>Cost of</u>
2	<u>Symbol</u>	<u>Company</u>	<u>Equity</u>
3	AWR	American States Water Co.	11.72%
4	WTR	Aqua America	9.86%
5	CWT	California Water Services Group	11.92%
6	CTWS	Connecticut Water Services	13.38%
7	MSEX	Middlesex Water Company	12.86%
8	SJW	SJW Corp.	12.82%
9		Average	12.09%
10		Pima Utility Company	15.37%

11 **Q. WHAT CONCLUSIONS CAN BE MADE FROM A COMPARISON OF**  
12 **THE BUILD-UP METHOD RESULTS TO YOUR RECOMMENDATIONS**  
13 **FOR THE COST OF EQUITY FOR PIMA?**

14 A. I conclude my cost of equity estimates based on the DCF and CAPM of 10.7  
15 percent and my recommendation of 10.5 percent for Pima are very conservative  
16 given its size. It also shows that my size premium used in my cost of capital  
17 analysis of 50 to 100 basis points is likely far too low and should be much higher.  
18 Even accounting for financial risk differences, the indicated cost of equity for Pima  
19 based on the *Duff & Phelps* study is over 328 basis points higher than the sample  
20 water companies.

21 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF**  
22 **CAPITAL?**

23 A. Yes.



Pima Utility Company

Thomas Bourassa Direct Testimony  
(Cost of Capital)

---

**Exhibit TJB-COC-DT1**

**Pima Utility Company**  
**COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD**  
**BASED UPON DUFF AND PHELPS RISK PREMIUM STUDY**

TABLE 1

			Measures of size (Millions)				
	Company	Symbol	MV Equity <sup>1</sup>	Book Equity <sup>1</sup>	5 Yr Avg. Net Income MVIC <sup>1</sup>	Total Assets <sup>2</sup>	5 Yr Avg. EBITDA <sup>3</sup>
1.	American States	AWR	\$ 646	\$ 377	\$ 946	\$ 27	\$ 1,192
2.	Aqua America	WTR	\$ 3,069	\$ 1,174	\$ 4,601	\$ 103	\$ 4,072
3.	California Water	CWT	\$ 798	\$ 436	\$ 1,277	\$ 35	\$ 1,692
4.	Connecticut Water	CTWS	\$ 229	\$ 114	\$ 341	\$ 9	\$ 425
5.	Middlesex	MSEX	\$ 294	\$ 174	\$ 427	\$ 12	\$ 489
6.	SJW Corp.	SJW	\$ 452	\$ 256	\$ 747	\$ 24	\$ 935
	Pima Utility Company		NA	\$ 18.2	NA	\$ 1.0	\$ 13.0

<sup>1</sup> From Value Line data (12/31/2010)

<sup>2</sup> From Zacks Investment Research. From E-1 for subject utility.

<sup>3</sup> Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data								
	Company	Symbol	2010	2009	2008	2007	2006	Average
	American States	AWR	\$ 33.2	\$ 29.5	\$ 22.0	\$ 28.0	\$ 23.1	\$ 27.2
	Aqua America	WTR	\$ 124.0	\$ 104.4	\$ 97.9	\$ 95.0	\$ 92.0	\$ 102.6
	California Water	CWT	\$ 37.7	\$ 40.6	\$ 39.8	\$ 31.2	\$ 25.6	\$ 34.9
	Connecticut Water	CTWS	\$ 9.8	\$ 10.2	\$ 9.4	\$ 8.8	\$ 7.0	\$ 9.0
	Middlesex	MSEX	\$ 14.3	\$ 10.0	\$ 12.2	\$ 11.8	\$ 10.0	\$ 11.7
	SJW Corp.	SJW	\$ 24.4	\$ 15.2	\$ 21.5	\$ 19.3	\$ 38.6	\$ 23.8
	Pima Utility Company		\$ 0.9	\$ 1.2	\$ 1.2	\$ 1.1	\$ 1.2	\$ 1.1

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

<sup>4</sup> Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data								
	Company	Symbol	2010	2009	2008	2007	2006	Average
	American States	AWR	\$ 134.4	\$ 122.6	\$ 105.9	\$ 102.8	\$ 111.6	\$ 115.5
	Aqua America	WTR	\$ 473.2	\$ 415.2	\$ 384.7	\$ 364.5	\$ 340.8	\$ 395.7
	California Water	CWT	\$ 155.7	\$ 125.5	\$ 122.1	\$ 95.6	\$ 86.9	\$ 117.2
	Connecticut Water	CTWS	\$ 22.5	\$ 20.3	\$ 21.1	\$ 27.9	\$ 17.4	\$ 21.8
	Middlesex	MSEX	\$ 43.3	\$ 34.6	\$ 38.6	\$ 36.6	\$ 34.1	\$ 37.4
	SJW Corp.	SJW	\$ 75.4	\$ 93.5	\$ 99.7	\$ 77.7	\$ 73.5	\$ 84.0
	Pima Utility Company		\$ 2.5	\$ 2.7	\$ 2.7	\$ 2.7	\$ 2.8	\$ 2.7

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

EBITDA data for subject utility from E-1 and/or ACC reports



[illegible]

Pima Utility Company  
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
 BASED UPON DUFF AND PHELPS RISK PREMIUM STUDY

Unlevered Portfolio Beta  
 (from Duff & Phelps RP Study - Table C)

TABLE 3

		Unlevered Portfolio Beta ( $\beta_u$ )							
<u>Company</u>		<u>Symbol</u>	<u>(Table C-1)</u>	<u>(Table C-2)</u>	<u>(Table C-4)</u>	<u>(Table C-3)</u>	<u>(Table C-5)</u>	<u>(Table C-6)</u>	<u>Average</u>
1.	American States	AWR	0.97	0.96	0.95	0.96	0.94	0.97	0.96
2.	Aqua America	WTR	0.87	0.85	0.85	0.87	0.83	0.81	0.85
3.	California Water	CWT	0.94	0.95	0.95	0.94	0.92	0.95	0.94
4.	Connecticut Water	CTWS	0.96	1.00	0.97	0.97	0.99	1.03	0.99
5.	Middlesex	MSEX	0.98	1.00	0.98	0.97	0.99	0.99	0.99
6.	SJW Corp.	SJW	0.95	0.98	0.98	0.96	0.96	0.95	0.96
Average			0.95	0.96	0.95	0.95	0.94	0.95	0.95
Pima Utility Company			0.95	0.99	1.00	1.01	1.05	1.03	1.01

Pima Utility Company  
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
BASED UPON DUFF AND PHELPS RISK PREMIUM STUDY

MRP Estimates Using Duff & Phelps Study (Relevered)

TABLE 4

Relevered Realized Risk Premium

$$RP_{\text{relevered}} = RP_{\text{unlevered}} + W_d/W_e \cdot (\beta_u - \beta_d) \cdot RP_{\text{market}}$$

Where  $\beta_u$  = unlevered portfolio beta

$\beta_d$  = debt beta, assumed to be 0.1

$W_d$  = percentage of debt in capital structure

$W_e$  = percentage of equity in capital structure

$RP_{\text{unlevered}}$  = unlevered realized risk premium from Table 2

$RP_{\text{market}}$  = general equity risk premium for the market since 1963 (4.4%)

		MRP <sub>mtz</sub> (Relevered)								
<u>Company</u>		<u>Symbol</u>	<u>W<sub>d</sub>/W<sub>e</sub></u>	<u>MV</u> <u>Equity</u>	<u>Book</u> <u>Equity</u>	<u>MVIC</u>	<u>5 Yr Avg.</u> <u>Net Income</u>	<u>Total</u> <u>Assets</u>	<u>5 Yr Avg.</u> <u>EBITDA</u>	<u>Average</u>
1.	American States	AWR	46.4%	11.08%	10.72%	10.90%	11.53%	10.58%	11.11%	10.99%
2.	Aqua America	WTR	49.9%	8.75%	9.28%	8.55%	9.88%	8.89%	9.38%	9.12%
3.	California Water	CWT	60.1%	11.22%	11.04%	10.98%	11.69%	10.58%	11.57%	11.18%
4.	Connecticut Water	CTWS	48.7%	12.64%	12.30%	12.49%	12.96%	12.09%	13.38%	12.64%
5.	Middlesex	MSEX	45.6%	12.20%	11.68%	12.07%	12.53%	11.79%	12.51%	12.13%
6.	SJW Corp.	SJW	65.5%	12.27%	11.95%	12.04%	12.41%	11.65%	12.18%	12.08%
Average MRP (Relevered)			52.69%	11.36%	11.16%	11.17%	11.83%	10.93%	11.69%	11.36%
Pima Utility Company			23.67%	NA	13.43%	NA	14.67%	15.65%	14.79%	14.63%

Pima Utility Company  
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
BASED UPON DUFF AND PHELPS RISK PREMIUM STUDY

Equity Risk Premium Adjustment and Other metrics used in Build-up Method

TABLE 5

[1] Estimate of Current Market Risk Premium ( $RP_{market}$ )	4.40%
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2010)	4.40%
[3] Equity Risk Premium Adjustment ([1] - [2])	0.00%
[4] Average MRP (relevered) for publicly traded water companies (from Table 4)	11.36%
[5] MRP (relevered) for publicly traded water companies ( $RP_{m+2}$ ) ([3] + [4])	11.36%
[6] Equity Risk Premium Adjustment ([3])	0.00%
[7] Average MRP (relevered) for subject utility company (from Table 4)	14.63%
[8] MRP (relevered) for subject utility company ( $RP_{m+2}$ ) ([6] + [7])	14.63%
[9] Industry Risk Premium (From Ibbotson for SIC 494 Water Supply Industry Table 3-5)	-4.59%
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7% <sup>1</sup> )	0.6567
[11] Adjusted Industry Risk Premium ( $R_i$ ) ([9] x [10])	-3.01%
[12] Risk Free Rate (Ibbotson LT U.S. Treasury Yield) ( $R_f$ ) <sup>2</sup>	3.75%

<sup>1</sup> From Ibbotson S&P 2011 Valuation Edition Yearbook. Long-Horizon Equity Risk Premium (1926-2010)

<sup>2</sup> 20 year U.S. Treasury Bond Yield at July 22, 2011. Federal Reserve.

Pima Utility Company  
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD  
BASED UPON DUFF AND PHELPS RISK PREMIUM STUDY

Cost of Equity (COE) Estimate using Build-up Method

TABLE 6

$$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$$

Where:

$E(R_i)$  = Expected (indicated) rate of return

$R_f$  = Risk-free rate of return. See Table 5.

$RP_{m+s}$  = Market risk premium including size premium. See Table 4.

$RP_i$  = Industry risk premium (adjusted) See Table 5.

$RP_u$  = Company-specific risk premium

	Sample Publicly Traded	
	Water	Goodman
	<u>Utilities</u>	<u>Water</u>
$R_f$ =	3.75%	3.75%
$RP_{m+s}$ =	See Table 4	See Table 4
$RP_i$ =	-3.01%	-3.01%
$RP_u$ =	0.00%	0.00%

			Indicated COE E(R <sub>i</sub> )						
	<u>Company</u>	<u>Symbol</u>	<u>MV</u> <u>Equity</u>	<u>Book</u> <u>Equity</u>	<u>MVIC</u>	<u>5 Yr Avg.</u> <u>Net Income</u>	<u>Total</u> <u>Assets</u>	<u>5 Yr Avg.</u> <u>EBITDA</u>	<u>Average</u>
1.	American States	AWR	11.81%	11.46%	11.63%	12.26%	11.31%	11.85%	11.72%
2.	Aqua America	WTR	9.49%	10.02%	9.28%	10.61%	9.63%	10.12%	9.86%
3.	California Water	CWT	11.96%	11.78%	11.72%	12.43%	11.32%	12.30%	11.92%
4.	Connecticut Water	CTWS	13.38%	13.03%	13.23%	13.69%	12.83%	14.12%	13.38%
5.	Middlesex	MSEX	12.94%	12.41%	12.80%	13.26%	12.53%	13.24%	12.86%
6.	SJW Corp.	SJW	13.00%	12.69%	12.77%	13.15%	12.39%	12.91%	12.82%
Average COE estimate			12.10%	11.90%	11.91%	12.57%	11.67%	12.42%	12.09%
Pima Utility Company			NA	14.17%	NA	15.40%	16.38%	15.53%	15.37%



Pima Utility Company

# **Schedules D**

Pima Utility Company  
Test Year Ended December 31, 2010  
Summary of Cost of Capital

Exhibit  
Schedule D-1  
Page 1  
Witness: Bourassa

Consolidated Capital Structure of Water and Sewer Division

Line No.	Item of Capital	<u>Adjusted End of Test Year</u>				<u>Proforma End of Test Year</u>				<u>End of Projected Year</u>			
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	6,125,000	22.53%	7.696%	1.73%	8,370,000	31.08%	7.182%	2.23%	8,370,000	31.10%	7.182%	2.23%
3	Stockholder's Equity	21,063,072 <sup>1,2</sup>	77.47%	10.50%	8.13%	18,563,072 <sup>3</sup>	68.92%	10.50%	7.24%	18,539,615	68.90%	10.50%	7.23%
5	Totals	27,188,072	100.00%		9.87%	26,933,072	100.00%		9.47%	26,909,615	100.00%		9.47%
8	<sup>1</sup> Adjustment for Equity for A/D Adj. Water Division, B-2, p. 4, Adj. 2-B												
9	\$ (588,842)												
9	<sup>2</sup> Adjustment for Equity for A/D Adj. Sewer Division, B-2, p. 4, Adj. 2-B												
10	\$ 2,219,610												
10	<sup>3</sup> Buy back equity using proceeds from proposed new long-term debt												
10	\$ (2,500,000)												

SUPPORTING SCHEDULES:

- 23 D-1
- 24 D-3
- 25 D-4
- 26 E-1
- 27 E-1 Sewer Division
- 28
- 29
- 30

RECAP SCHEDULES:

A-3



Exhibit  
Schedule D-2  
Page 1  
Witness: Bourassa

[illegible]

Pima Utility Company  
Test Year Ended December 31, 2010  
Cost of Preferred Stock

Exhibit  
Schedule D-3  
Page 1  
Witness: Bourassa

Line  
No.

1

End of Test Year

End of Projected Year

2

3

Description  
of Issue

Shares  
Outstanding

Amount

Dividend  
Requirement

Shares  
Outstanding

Amount

Dividend  
Requirement

5

6

7

NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

8

9

10

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SUPPORTING SCHEDULES:

22

E-1

23

24

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RECAP SCHEDULES:

D-1

Pima Utility Company  
Test Year Ended December 31, 2010  
Cost of Common Equity

Exhibit  
Schedule D-4  
Page 1  
Witness: Bourassa

Line

No.

1

2

3

4

5

6

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20

The Company is proposing a cost of common equity of 10.50%..

SUPPORTING SCHEDULES:

E-1

D-4.1 to D-4.16

RECAP SCHEDULES:

D-1

Pima Utility Company  
Summary of Results

Exhibit  
Schedule D-4.1

Line  
No.

1				
2				
3				
4	<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
5				
6	Range DCF Constant Growth Estimates <sup>1</sup>	9.2%	9.8%	9.5%
7				
8	Range of CAPM Estimates <sup>2</sup>	10.0%	12.4%	11.2%
9				
10				
11	Average of DCF and CAPM midpoint estimates	9.6%	11.1%	10.3%
12				
13				
14	Financial Risk Adjustment <sup>3</sup>	-0.4%	-0.4%	-0.4%
15				
16	Small Company Risk Premium <sup>4</sup>	0.5%	1.0%	0.8%
17				
18	Indicated Cost of Equity	9.7%	11.7%	10.7%
19				
20				
21				
22	Recommended Cost of Equity			10.5%
23				
24				
25				
26	<sup>1</sup> See Schedule D-4-8			
27	<sup>2</sup> See Schedule D-4.12			
28	<sup>3</sup> See Schedule D-4.16			
29	<sup>4</sup> See testimony.			

**Pima Utility Company**  
**Selected Characteristics of Sample Group of Water Utilities**

**Exhibit**  
**Schedule D-4.2**

Line No.		<u>% Water Revenues</u>	<u>Operating Revenues (millions)</u>	<u>Net Plant (millions)</u>	<u>S&amp;P Bond Rating</u>	<u>Moody's Bond Rating</u>	<u>Allowed ROE</u>
3	<u>Company<sup>1</sup></u>						
4	1. American States	73%	\$ 404.8	\$ 868.0	A+	A2	10.20
5	2. Aqua America	98%	\$ 736.9	\$ 3,496.8	AA-	NR	10.33
6	3. California Water	95%	\$ 468.3	\$ 1,308.4	AA-	NR	10.20
7	4. Connecticut Water	99%	\$ 70.3	\$ 344.5	A	NR	9.75
8	5. Middlesex	90%	\$ 104.5	\$ 402.4	A	NR	10.15
9	6. SJW Corp.	96%	\$ 218.9	\$ 711.8	A	NR	10.20
10							
11	Average	92%	\$ 334.0	\$ 1,188.7			10.14
12							
13	Pima Utility Company	100% Water/Sewer	\$ 2.0	\$ 21.9	NR	NR	
14	(as of December 31, 2010)						
15							
16							
17							
18							
19							
20							
21	<sup>1</sup> AUS Utility Reports (July 2011).						
22							
23							
24							
25							

Pima Utility Company  
Capital Structures

Exhibit  
Schedule D-4.3

No.		Book Value <sup>1</sup>		Market Value <sup>1</sup>	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
3	<u>Company</u>				
4	1. American States	44.3%	55.7%	31.7%	68.3%
5	2. Aqua America	56.6%	43.4%	33.3%	66.7%
6	3. California Water	52.4%	47.6%	37.5%	62.5%
7	4. Connecticut Water	49.6%	50.4%	32.8%	67.2%
8	5. Middlesex	43.5%	56.5%	31.3%	68.7%
9	6. SJW Corp.	53.6%	46.4%	39.6%	60.4%
10					
11	Average	50.0%	50.0%	34.4%	65.6%
12					
13	Pima Utility Company <sup>2</sup>	31.1%	68.9%	N/A	N/A
14	(Proforma)				
15					
16					
17	<sup>1</sup> Value Line Analyzer Data (Jul 22, 2011)				
18	<sup>2</sup> Adjusted Per Schedule D-1				
19					
20					
21					
22					
23					
24					
25					
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28					

**Pima Utility Company**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Schedule D-4.4**

Line  
No.

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
							Average of Future and Historical Growth
	<u>Five-year historical average annual changes</u>					Average Future Growth <sup>3</sup>	
		Book			Average		
	<u>Company</u>	<u>Price</u> <sup>1</sup>	<u>Value</u> <sup>2</sup>	<u>EPS</u> <sup>2</sup>	<u>DPS</u> <sup>2</sup>	<u>Col 1-4</u>	<u>Col 5-6</u>
1	1. American States	4.19%	5.00%	11.50%	2.50%	6.90%	4.67%
2	2. Aqua America	NMF	7.00%	4.50%	8.00%	6.50%	7.13%
3	3. California Water	1.41%	5.50%	6.50%	1.00%	3.60%	6.67%
4	4. Connecticut Water	5.97%	3.00%	1.50%	1.50%	2.99%	3.50%
5	5. Middlesex	4.69%	5.50%	4.50%	1.50%	4.05%	3.00%
6	6. SJW Corp.	1.57%	6.50%	NM	5.50%	4.52%	9.75%
7							
8							
9							
10							
11							
12							
13							
14							
15							
16	GROUP AVERAGE	3.56%	5.42%	5.70%	3.33%	4.76%	5.78%
17	GROUP MEDIAN	4.19%	5.50%	4.50%	2.00%	4.28%	5.67%
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							

<sup>1</sup> Average of changes in annual stock prices ending on December 31 through 2010. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, July 22, 2011

<sup>3</sup> See Schedule D-4.6.

**Pima Utility Company**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Schedule D-4.5**

Line  
No.

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<b>Ten-year historical average annual changes</b>					Average Future Growth <sup>3</sup>	Average of Future and Historical Growth
	<u>Price<sup>1</sup></u>	<u>Book Value<sup>2</sup></u>	<u>EPS<sup>2</sup></u>	<u>DPS<sup>2</sup></u>	<u>Average Col 1-4</u>		<u>Col 5-6</u>
1. American States	5.75%	5.00%	4.50%	2.00%	4.31%	4.67%	4.49%
2. Aqua America	6.93%	9.00%	6.50%	7.50%	7.48%	7.13%	7.30%
3. California Water	5.91%	4.50%	3.00%	1.00%	3.60%	6.67%	5.13%
4. Connecticut Water	5.69%	4.00%	1.00%	1.50%	3.05%	3.50%	3.27%
5. Middlesex	4.50%	4.50%	2.50%	2.00%	3.37%	3.00%	3.19%
6. SJW Corp.	4.37%	6.00%	2.00%	5.00%	4.34%	9.75%	7.05%
GROUP AVERAGE	5.52%	5.50%	3.25%	3.17%	4.36%	5.78%	5.07%
GROUP MEDIAN	5.72%	4.75%	2.75%	2.00%	3.96%	5.67%	4.81%

<sup>1</sup> Average of changes in annual stock prices ending December 31, 2010. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer Data, July 22, 2011

<sup>3</sup> See Rejoinder Schedule D-4.6.



Pima Utility Company  
Analysts Forecasts of Earnings Per Share Growth

Exhibit  
Schedule D-4.6

Line  
No.

	[1]	[2]	[3]	[4]	[5]
	ESTIMATES OF EARNINGS GROWTH				Average
				Value	Growth (G)
	<u>Company</u>	<u>Zacks</u> <sup>1</sup>	<u>Morningstar</u> <sup>1</sup>	<u>Yahoo</u> <sup>1</sup>	<u>Line</u> <sup>1</sup>
					(Cols 1-4) <sup>2</sup>
1	1. American States	3.00%	5.50%	5.50%	4.67%
2	2. Aqua America	6.50%	6.00%	6.00%	7.13%
3	3. California Water		5.00%	9.00%	6.67%
4	4. Connecticut Water	4.00%	3.00%	3.00%	3.50%
5	5. Middlesex	3.00%	3.00%	3.00%	3.00%
6	6. SJW Corp.		14.00%	5.50%	9.75%
7	GROUP AVERAGE	4.50%	4.00%	6.75%	5.67%
8	GROUP MEDIAN				5.67%

<sup>1</sup> Data as of Jul 22, 2011

<sup>2</sup> Where no data available or single estimate, average of other utilities assumed to estimate for utility.

**Pima Utility Company**  
**Current Dividend Yields for Water Utility Sample Group**

**Exhibit**  
**Schedule D-4.7**

Line  
No.

		Current Stock Price (P <sub>0</sub> ) <sup>1</sup>	Current Dividend (D <sub>0</sub> ) <sup>1</sup>	Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1</sup>	Average Annual Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1,2</sup>
1	<u>Company</u>				
2	1. American States	\$ 34.75	\$ 1.08	3.11%	2.94%
3	2. Aqua America	\$ 22.24	\$ 0.63	2.83%	3.09%
4	3. California Water	\$ 19.13	\$ 1.23	6.43%	3.07%
5	4. Connecticut Water	\$ 26.34	\$ 0.94	3.55%	4.11%
6	5. Middlesex	\$ 18.82	\$ 0.73	3.88%	4.71%
7	6. SJW Corp.	\$ 24.29	\$ 0.69	2.84%	2.84%
8					
9	Average			3.77%	3.46%
10	Median			3.33%	3.08%

<sup>1</sup> Value Line Analyzer Data. Stock prices as of July 22, 2011.

<sup>2</sup> Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

25

**Pima Utility Company  
Discounted Cash Flow Analysis  
DCF Constant Growth**

**Exhibit  
Schedule D-4.8**

Line  
No.

	[1]	[2]	[3]	[4]
	Average Spot Dividend Yield ( $D_0/P_0$ ) <sup>1</sup>	Expected Dividend Yield ( $D_1/P_0$ ) <sup>2</sup>	Growth (g)	Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 2+3)
8 DCF - Past and Future Growth	3.77%	3.97%	5.27% <sup>3</sup>	9.2%
10 DCF - Future Growth	3.77%	3.99%	5.78% <sup>4</sup>	9.8%
13 Average	3.77%	3.98%	5.53%	9.5%
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				

<sup>1</sup> Spot Dividend Yield =  $D_0/P_0$ . See Schedule D-4.7.

<sup>2</sup> Expected Dividend Yield =  $D_1/P_0 = D_0/P_0 * (1+g)$ .

<sup>3</sup> Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7

<sup>4</sup> Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

**Pima Utility Company  
Market Betas**

**Exhibit  
Schedule D-4.9**

Line  
No.

	<u>Company</u>	<u>Beta (<math>\beta</math>)<sup>1</sup></u>
1		
2	1. American States	0.75
3	2. Aqua America	0.65
4	3. California Water	0.70
5	4. Connecticut Water	0.80
6	5. Middlesex	0.75
7	6. SJW Corp.	0.90
8		
9	Average	0.76

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<sup>1</sup> Value Line Investment Analyzer data (July 22, 2011)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percentage changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Pima Utility Company  
Forecasts of Long-Term Interest Rates  
2011-2012**

**Exhibit  
Schedule D-4.10**

Line  
No.

		Current (Avg. May, June, July 2011)	2012	2013	Average
1					
2					
3					
4	Description				
5					
6	Blue Chip Consensus Forecasts	4.26%	5.20% <sup>1</sup>	5.2% <sup>1</sup>	4.9%
7					
8	Value Line	4.26%	5.10% <sup>2</sup>	5.5% <sup>2</sup>	5.0%
9					
10	Average				5.0%
11					
12					
13					
14					
15	<sup>1</sup> June 2011 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury				
16	<sup>2</sup> Value Line Quarterly forecast, dated May 27, 2011, Long-term Treasury				
17					
18					
19					
20					
21					
22					
23					
24					

**Pima Utility Company**  
**Computation of Current Market Risk Premium**

**Exhibit**  
**Schedule D-4.11**

Line  
No.

1												
2		Dividend	Expected Dividend			Expected Market		Monthly Average 30 Year			Market Risk	
3	Month	Yield ( $D_t/P_t$ ) <sup>1</sup>	Yield ( $D_t/P_t$ ) <sup>2</sup>	+	Growth (g) <sup>3</sup>	=	Return (k)	-	Treasury Rate <sup>4</sup>	=	Premium (MRP)	
4	Dec 2009	2.04%	2.26%	+	10.67%	=	12.93%	-	4.35%	=	8.58%	
5	Jan 2010	2.12%	2.37%	+	11.94%	=	14.31%	-	4.48%	=	9.83%	
6	Feb	2.09%	2.35%	+	12.64%	=	14.99%	-	4.48%	=	10.51%	
7	Mar	1.92%	2.13%	+	10.85%	=	12.98%	-	4.48%	=	8.50%	
8	April	1.82%	1.97%	+	7.99%	=	9.96%	-	4.69%	=	5.27%	
9	May	2.01%	2.27%	+	13.16%	=	15.43%	-	4.29%	=	11.14%	
10	June	2.21%	2.57%	+	16.15%	=	18.72%	-	4.13%	=	14.59%	
11	July	2.10%	2.40%	+	14.19%	=	16.59%	-	3.99%	=	12.60%	
12	Aug	2.18%	2.50%	+	14.52%	=	17.02%	-	3.80%	=	13.22%	
13	Sept	2.12%	2.39%	+	12.82%	=	15.21%	-	3.77%	=	11.44%	
14	Oct	2.03%	2.28%	+	12.12%	=	14.40%	-	3.87%	=	10.53%	
15	Nov	1.94%	2.15%	+	10.85%	=	13.00%	-	4.19%	=	8.81%	
16	Dec 2010	1.86%	2.04%	+	9.73%	=	11.77%	-	4.42%	=	7.35%	
17	Jan 2011	1.82%	1.99%	+	9.54%	=	11.53%	-	4.52%	=	7.01%	
18	Feb	1.91%	2.13%	+	11.40%	=	13.53%	-	4.65%	=	8.88%	
19	Mar	1.87%	2.07%	+	10.67%	=	12.74%	-	4.51%	=	8.23%	
20	April	1.83%	2.02%	+	10.30%	=	12.32%	-	4.50%	=	7.82%	
21	May	1.95%	2.18%	+	11.76%	=	13.94%	-	4.29%	=	9.65%	
22	June	1.97%	2.21%	+	12.11%	=	14.32%	-	4.23%	=	10.09%	
23	July 2011	2.23%	2.58%	+	15.51%	=	18.09%	-	4.27%	=	13.82%	
24												
25	Recommended	1.96%	2.20%	+	11.96%	=	14.15%	-	4.41%	=	9.75%	
26												
27	Short-term Trends											
28	Recent Twelve Months Avg	1.98%	2.21%	+	11.78%	=	13.99%	-	4.25%	=	9.74%	
29	Recent Nine Months Avg	1.93%	2.15%	+	11.32%	=	13.47%	-	4.40%	=	9.07%	
30	Recent Six Months Avg	1.96%	2.20%	+	11.96%	=	14.15%	-	4.41%	=	9.75%	
31	Recent Three Months Avg	2.05%	2.32%	+	13.13%	=	15.45%	-	4.26%	=	11.18%	

<sup>1</sup> Average Current Dividend Yield ( $D_t/P_t$ ) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>2</sup> Expected Dividend Yield ( $D_t/P_t$ ) equals average current dividend yield ( $D_t/P_t$ ) times one plus growth rate(g).

<sup>3</sup> Median 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>4</sup> Monthly average 30 year U.S. Treasury. Federal Reserve.

38

**Pima Utility Company  
Capital Asset Pricing Model (CAPM)**

**Exhibit  
Schedule D-4.12**

Line  
No.

1		Rf <sup>1</sup>	+	beta <sup>3</sup>	x	Rp	=	k
2								
3	Historical Market Risk Premium CAPM	5.0%	+	0.76	x	6.7%	<sup>4</sup> =	10.0%
4								
5	Current Market Risk Premium CAPM	5.0%	+	0.76	x	9.7%	<sup>5</sup> =	12.4%
6								
7	Average							11.2%

8  
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10  
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<sup>1</sup> Forecasts of long-term treasury yields. See Schedule D-4.10.

<sup>2</sup> Value Line Investment Analyzer data. See Schedule D-4.9.

<sup>3</sup> Historical Market Risk Premium from (Rp) *MorningStar S&P 500 2011 Valuation Yearbook* Table A-1 Long-Horizon ERP 1926-2010

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks  
and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

Pima Utility Company  
Financial Risk Computation

Exhibit  
Schedule D-4.13

Line  
No.

**CAPM**

	<u>Rf</u>		+	<u>β</u>		x	<u>(Rp)</u>		=	<u>k</u>
Historical Market Risk Premium	5.0%	<sup>1</sup>	+	0.76	<sup>2</sup>	x	6.7%	<sup>3</sup>	=	10.0%
Current Market Risk Premium	5.0%	<sup>1</sup>	+	0.76	<sup>2</sup>	x	9.7%	<sup>4</sup>	=	12.4%
Average										11.2%

**CAPM Relevered Beta**

	<u>Rf</u>		+	<u>β</u>		x	<u>(Rp)</u>		=	<u>k</u>
Historical Market Risk Premium	5.0%	<sup>1</sup>	+	0.71	<sup>5</sup>	x	6.7%	<sup>3</sup>	=	9.7%
Current Market Risk Premium	5.0%	<sup>1</sup>	+	0.71	<sup>5</sup>	x	9.7%	<sup>4</sup>	=	11.9%
Average										10.8%
Financial Risk Adjustment										<u>-0.4%</u>

<sup>1</sup> Forecast of long-term treasury yields. See Schedule D-4.10

<sup>2</sup> Value Line Investment Analyzer data. See Schedule D-4.9

<sup>3</sup> Historical Market Risk Premium from (Rp) *MorningStar S&P 500 2011 Valuation Yearbook* Table A-1 Long-Horizon ERP 1926-2010

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11

<sup>5</sup> Relevered beta found on Schedule D-4.15



**Pima Utility Company  
Financial Risk Computation  
Unlevered Beta**

**Exhibit  
Schedule D-4.14**

Line  
No.

		VL	Raw	Tax	MV	MV	Unlevered
		Beta	Beta	Rate	Debt	Equity	Raw Beta
	Company	$\beta_L^1$	Raw $\beta_L^2$	$t^3$	$\frac{D^4}{E^4}$	$\frac{E^4}{E^4}$	$\beta_{UL}^5$
5	1. American States	0.75	0.63	43.2%	31.7%	68.3%	0.50
6	2. Aqua America	0.65	0.48	39.2%	33.3%	66.7%	0.37
7	3. California Water	0.70	0.55	39.5%	37.5%	62.5%	0.40
8	4. Connecticut Water	0.80	0.70	35.2%	32.8%	67.2%	0.53
9	5. Middlesex	0.75	0.63	32.1%	31.3%	68.7%	0.48
10	6. SJW Corp.	0.90	0.85	38.8%	39.6%	60.4%	0.61
11							
12							
13	Sample Water Utilitie:	0.76	0.64	38.0%	34.4%	65.6%	0.48
14							
15							
16							
17							
18							
19							

<sup>1</sup> Value Line Investment Analyzer data. See Schedule D-4.13

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta = .33 + (.67) \* Raw beta

<sup>2</sup> Raw Beta = (VL beta - .33)/(.67)

<sup>3</sup> Effective tax rates for year ended December 31, 2010.

<sup>4</sup> See Schedule D-4.3

<sup>5</sup> Raw  $B_u$  = Raw  $B_L$  / (1 + (1-t)\*D/E)

30

**Pima Utility Company  
Financial Risk Computation  
Relevered Beta**

**Exhibit  
Schedule D-4.15**

Line No.		Unlevered Raw Beta $\beta_{UL}^1$	MV Book Debt BD <sup>2</sup>	MV Equity Capital EC <sup>2</sup>	Tax Rate $t^3$	Relevered Raw Beta $\beta_{RL} = \beta_{UL} (1 + (1-t)BD/EC)$	VL Adjusted Relevered Beta .33 + .67(Raw Beta) $\beta_{BL}$
5	Pima Utility Company	0.48	18.9%	81.1%	24.45%	0.56	0.71

<sup>1</sup> Unlevered Beta from Schedule D-4.14.

<sup>2</sup> Capital Structure of Company (Projected)

	BV (in Thousands)		MV (in Thousands)	MV %
17 Long-term Debt	\$ 8,370	1.00	\$ 8,370	18.90%
18 Preferred Stock	\$ -	1.00	-	0.0%
19 Common Stock	\$ 18,563	1.94 (a)	35,997	81.1%
20 Total Capital	\$ 26,933		\$ 44,367	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

<sup>3</sup> Current tax rate based on proposed test year ending 12/31/2010.

Pima Utility Company  
Size Premium<sup>1</sup>

Exhibit  
Schedule D-4.16

Line  
No.

		Beta(β)	Size Premium <sup>fo</sup>	Risk Premium for Small Water Utilities <sup>7</sup>
1				
2				
3				
4				
5				
6	Mid-Cap Companies <sup>2</sup>	1.13	1.00%	
7				
8	Low-Cap Companies <sup>3</sup>	1.26	1.64%	
9				
10	Micro-Cap Companies <sup>4</sup>	1.51	3.00%	
11				
12	Decile 10 <sup>5</sup>	1.64	4.74%	2.37%
13				
14				
15				
16				
17				
18				
19				
20	Estimated Risk Premium for small water utilities <sup>6</sup>			0.99%
21				
22				
23				

<sup>1</sup> Data from Table 7-11 of Morningstar, *Ibbotson S&P 2011 Valuation Yearbook*.

<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$1,779 million and \$6,794 million.

<sup>3</sup> Low-Cap companies includes companies with market capitalization between \$478 million and \$1,776 million.

<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$477 million.

<sup>5</sup> Decile 10 includes companies with market capitalization between \$1.2 million and \$235 million.

<sup>6</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

<sup>7</sup> Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

	Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
34						
35	1. American States	\$ 846 Low-Cap	1.76%	2.98%	0.1666667	0.50%
36	2. Aqua America	\$ 3,069 Mid-Cap	1.10%	3.64%	0.1666667	0.61%
37	3. California Water	\$ 798 Low-Cap	1.76%	2.98%	0.1666667	0.50%
38	4. Connecticut Water	\$ 229 Decile 10	4.78%	-0.04%	0.1666667	-0.01%
39	5. Middlesex	\$ 294 Micro-Cap	3.07%	1.67%	0.1666667	0.28%
40	6. SJW Corp.	\$ 452 Low-Cap	1.76%	2.98%	0.1666667	0.50%
41	Weighted Size Premium for Small Companies					2.37%